# The NATIONAL UNDERWRITER



THURSDAY, DECEMBER 26, 1940—Part 1

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WEEKLY NEWSPAPER OF INSURANCE

Part I

# The NATIONAL UNDERWRITER

Forty-fourth Year—No. 52 CHICAGO, CINCINNATI, NEW YORK AND SAN FRANCISCO, THURSDAY, DECEMBER 26, 1940 $4.00 Year, 20 Cents a Copy

## Scan Insurance Possibilities Below Rio Grande

### Demand Is Now Increasing for Reinsurance in North American Companies

Strengthening of the tie between Latin America and the United States as a result of the war is resulting in a somewhat increased demand for reinsurance in North American companies. Some accounts have already been obtained and there should be considerably more if the number of inquiries is any indication. Most of the business so far is the result of South and Central American companies shifting their reinsurance business from Europe in order to get it away from war's uncertainties. This applies more to reinsurers in belligerent countries on the continent than to those in England.

Reinsurers in the United States have not been very aggressive about seeking business south of the Rio Grande, in spite of a number of favorable factors. While there are a few exceptions in each country, the typical Latin American insurance company is so dominated by the desire of its stockholders to get the highest possible dividend rate that the management is prevented from exercising its best underwriting judgment in all cases. In many companies the operating executives are British, French, German, or much less frequently American. They are underwriters of sound experience and training. As revolutions or harsh laws directed against outside companies caused the latter to withdraw, these local managers have gone to work for native companies. Thus there is no lack of seasoned underwriting judgment in the management of these companies.

#### Burning Ratios Good

Also on the plus side is the typical construction in Central and South America. It is usually massive and quite fire-resistant. The burning ratio varies inversely with the economic level but is in general favorable. Moral hazard is virtually eliminated, for the laws follow the Napoleonic code of presuming a person guilty until he can succeed in proving himself innocent. Thus, an owner who is so unlucky as to have a fire which is not obviously non-arsonous is thrown into jail as a matter of routine until he can clear himself of all suspicion.

Another reason for the favorable burning ratio is that electrical appliances are far less generally used in South and Central American countries than in the United States. Furthermore, in spite of the average North American's opinion of the Latin American's leisurely or even slovenly habits, they are not a careless people.

Burning ratios tend to vary rather

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## Loyalty Group Coordination Plan

### Make Final Move in Fire and Casualty Unification Program

The Loyalty group is putting into effect at the beginning of the year a complete co-ordination of fire and casualty operations in its eastern, western, Pacific, and southwestern departments.

In the belief that the maintenance of full fire and casualty facilities at convenient geographical centers affords a speedier, closer, and more efficient service to agents, it has long been the objective of the group to maintain a nationwide system of autonomous departmental offices.

Business of Metropolitan Casualty and Commercial Casualty in Indiana, Illinois and Kentucky, heretofore reported to the home office, will be reported to and be under the supervision of Vice-President Herbert A. Clark of the western department at Chicago. Thus the western department will now have complete supervision over the fire and casualty operations in 16 middlewestern and mountain states.

Fire business in Ohio and Tennessee, heretofore reported to the western department, will be reported to the home office. This will bring about the uniformity desired, as the casualty business of those states is being reported to the home office at present.

Fire business in Louisiana, heretofore reported to the home office, will be reported to the southwestern department at Dallas, which is under the joint management of Ben Lee Boynton and Norris W. Parker, second vice-presidents. Here, too the objective is uniformity and efficiency, as the casualty business of Louisiana is already being reported to the southwestern departmental office.

No change has been made on the Coast, where a complete fire and casualty departmental office has been maintained in San Francisco, under the joint management of Vice-Presidents L. W. Potter and Fred W. Sullivan, for a number of years.

The field forces of the group will remain unchanged.

Each department will have complete jurisdiction over the territory assigned to it; and it is believed that all agents and producers, hereafter in close contact with a fully autonomous departmental office, will receive prompt, efficient and more personalized service.

The changes mark the final accomplishment of the group's coordination program, and the attainment of complete uniformity in the reporting, underwriting, and supervision of all lines.

The year 1940 marked the 85th anniversary of Firemen's, the parent company. The year 1940 will also be the finest year in the history of the group, when premium writings will exceed $40,000,000.

#### Boom Favinger for Commissioner

DETROIT—Friends of W. L. Favinger, Aetna Life agent in Detroit, have been booming him for insurance commissioner of Michigan. The Detroit Accident & Health Association adopted a resolution petitioning Governor-elect VanWagoner to appoint him to this post. Mr. Favinger says he is not seeking the office, although he would consider it seriously if it were offered to him.

## R. W. Sheehan to Join N.A.I.A.

### "Spectator" Man to Edit "American Agency Bulletin"—Advance Fairleigh

The National Association of Insurance Agents announces that George DuR. Fairleigh has been assigned to new and important duties, including the work previously handled by Assistant Secretary George W. Scott, who has been appointed director of the new educational division. Mr. Fairleigh will have the title of assistant secretary.

The National association has employed Robert W. Sheehan to participate generally in its publication and public relations activities and to serve as executive editor of the "American Agency Bulletin." Mr. Sheehan is one of the best known and popular insurance reporters. He has been managing editor of the "Spectator," and has been with that publication 14 years.

Jerome van Wiseman, director of public relations and publications, who has been supervising the "American Agency Bulletin" temporarily, will act as editor.

Mr. Fairleigh was educated in Louisville. He went with the "Insurance Field" at Louisville in 1925. In 1935 he was made assistant secretary. Mr. Fairleigh served as president of the Louisville Junior Board of Trade.

Mr. Fairleigh joined the N.A.I.A. in 1936 as managing editor of the "Agency Bulletin," and was made editor in 1939.

Mr. Sheehan attended Trinity College in Hartford. While in college he served as a part-time reporter and correspondent. In 1926, he went with the "Spectator." In 1928 he was made assistant editor and in 1929 associate editor.

In 1935 when the "Spectator" was divided into two distinct publications, Mr. Sheehan was named managing editor of both papers. He has also been active in promotional work and has produced a number of the brochures, mailing pieces and advertisements for their list of books and services.

#### Duel Seeks More Funds

Commissioner Duel of Wisconsin, in requesting an increased biennial budget for his department, stated that the insurance companies are paying Wisconsin nearly $2,500,000 in taxes and fees "for services guaranteed them by law but denied them by inadequate legislative appropriation."

The insurance companies, he declared, have been reluctant to complain as loudly as the condition warrants for fear that they might call undue public attention to their plight and harm their own business. The department lacks funds to employ enough examiners to carry out the legal obligation which the legislature has imposed on the department. Some companies have not been examined for 20 to 25 years, he stated.

## I. D. Goss, Farm Insurance Leader, Is Retiring

### B. R. Walinder New America Fore Manager; J. E. Cryan Chief Aid

I. D. Goss will retire as manager of the farm and hail departments of the America Fore companies at the end of this year. He will be succeeded by B. R. Walinder and Joseph E. Cryan becomes assistant manager. They will be assisted by C. R. Alexander and J. J. LaNoue as farm superintendents; G. C. Edwards, hail superintendent; Paul O. Johnson, farm engineer; R. L. Chobotsky, collection manager, and E. E. Ross, assistant farm superintendent.

During the past 10 years Mr. Goss has operated under the handicap of an affliction of the central nervous system. For several years he has lived in an apartment building close to his office and has been taken back and forth in a wheel chair each day. For the last two years, it has seemed at times that he could not continue in active business, but he has exhibited great courage and determination. His ambition has been to create a smoothly functioning organization before stepping aside. Those who will now take over the active management of the farm and hail departments of the America Fore companies have been associated with Mr. Goss for some 10 to 20 years which assures a continuation of the same general policies which have built up the business of these departments to large proportions.

#### Walinder's Career

Mr. Walinder, the new manager, joined the farm department of Continental in 1923, filling a number of positions in the office and becoming state agent in Wisconsin of all of the America Fore companies in 1932. He continued in this position for six years and in 1938 was appointed one of the superintendents of the hail department. Last January he was named assistant manager. The new assistant manager, Joseph E. Cryan, began with the farm department in 1927. Three years later he was sent to Iowa as farm special agent, and in 1933 was appointed state agent of the farm department in Nebraska. Last January he was named one of the superintendents of the hail department. Mr. Alexander started with the old Phenix of Brooklyn 45 years ago, and Mr. LaNoue came up from Continental, first serving that company as farm special agent in Illinois. Since 1930 he has been attached to the Chicago office. Mr. Edwards has been one of the superintendents of the hail department, now becoming the head of that branch. He has been with the hail department of the America Fore group since 1927, and before that was a county

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# Defense Situation Brings Interest in Prolonged U. & O.

### Shutdowns Longer Than Year Possible, Worry Over Manufacturing Rates

HARTFORD—A decided interest in writing use and occupancy insurance with an amount of insurance contemplating a possible shutdown of more than one year and a feeling that use and occupancy rates for manufacturing risks, at least in eastern territory, are too low are the most important effects of current business conditions on the use and occupancy situation.

Underwriters and rating bureaus report many inquiries for rates and forms for covering a possible aggravated shutdown due to the much publicized "bottlenecks" in various phases of production and some plants have already been covered on this basis. Delay in obtaining one or a few pieces of essential machinery could easily close a plant for a period which was laughed at as ridiculous a few years ago, even if the assured did not have to depend on imports for his equipment. Many questions have been asked about the coverage of a loss prolonged because of the imposition of priorities on a supplying plant, diverting needed equipment to a defense industry. It is felt that this prolongation would be covered under any of the usual use and occupancy forms, provided the amount of insurance is adequate.

**Same Rate for Longer Periods**

Writing a use and occupancy policy to cover a possible shutdown of more than one year is not difficult, requiring only a simple endorsement. If the weekly form is used, for example, and the assured contemplates an 18 months shutdown, insurance equal to 150 percent of a year's use and occupancy value should be carried and the form endorsed to restrict recovery for each week of shutdown to 1/75 of the amount of insurance, instead of 1/50. A similar procedure is used for a different period of shutdown or for the coinsurance form. The rate is the same as if a year's use and occupancy value were insured.

It is understood that reduced rates for insurance based on prolonged shutdowns have been considered and rejected. Apparently authorities have felt that while the total loss possibilities are undoubtedly reduced in such a case, this is offset or perhaps more than offset by adverse selection. That is, no assured would buy more than a year's use and occupancy coverage unless he were convinced that he stood in very real danger of a prolonged shutdown. On the other hand, the published rates contemplate every assured buying coverage equal to a year's use and occupancy value under the weekly form or 9.6 months under the 80 percent coinsurance form, including those who could not suffer more than a few months loss and there is obviously no such factor among assured buying prolonged coverage.

**Rate Situation Felt Serious**

The feeling about rates for manufacturing risks is not new, but the aggravated loss possibilities under current conditions have added fire to discussions. Virtually every company with a reasonable use and occupancy volume and with adequate records reports its loss ratio on manufacturing risks as approaching the danger point. When rates were reduced in the east in 1938, a few informed underwriters pointed out that few people realized that a relatively small property damage loss could cause a use and occupancy loss which would eat up a much larger percentage of the amount insured. Losses since then have borne out these fears. This feeling is shared by the factory writing associations and syndicates.

It is not certain whether an attempt will be made to increase manufacturing rates in the near future, but informed observers are frankly concerned about the situation. Mercantile use and occupancy rates, are regarded as satisfactory, the discussions centering entirely about manufacturing lines and the possible rate inadequacy.

# Arguments Are Summoned Against Excess of Loss Plan

Many are the arguments that are summoned by treaty reinsurers to justify their manner of doing business as against the excess of loss basis. Both sides produce a very plausible argument and the wits of both sides are sharpened by the competition which so frequently results.

Here runs one of the arguments against the excess of loss plan. Consider a fire company that has about 1,000,000 risks on its books, with the average liability per risk at $10,000. Its annual premium income is $72,000,000. With losses of $36,000,000, it will have a 50 percent loss ratio. About half of the losses in amount will be on account of total and serious losses. In other words, there might be 1,800 $10,000 losses. That would mean $18,000,000 in loss payments on account of total and serious losses. The rest of the losses would be partial.

Under an excess of loss plan, with Lloyds paying 90 percent of the losses that ran above $7,500, Lloyds would pay $4,050,000.

That figure is arrived at by multiplying the 1,800 total and serious losses by $2,500, the results being $4,500,000, and subtracting 10 percent from that. That direct company would get only a small measure of relief in its current year and the next year, under the Lloyds' contract, it would have to pay back to Lloyds the losses which Lloyds had paid, plus a commission. Lloyds provides no relief in connection with the small losses and if there should be an abnormal loss frequency, without loss severity, the direct company would not have the cushion that it would have had with treaty reinsurance.

## *Luke Kavanaugh Officially Named as Col. Commissioner*

DENVER—Official certification of Luke J. Kavanaugh as insurance commissioner of Colorado was announced this week by the state civil service commission.

With Mr. Kavanaugh definitely in office, there is little likelihood of any change in the department setup for a good many years and insurance people are looking forward to a period of stabilized management. The office can be vacated only by death, resignation or proof of incompetency before the civil service commission. Former Commissioner Jackson Cochrane held the office 17 years and there is every reason to believe that Mr. Kavanaugh will remain in office indefinitely.

Grades of the various candidates, as announced by the commission, were: Kavanaugh, 88; E. M. Rifkin, 81.64; C. R. Bigelow, 81.64; J. G. Donaldson, 80.45; Carl L. Lough, 75; V. L. Tickner, 74.62.

Mr. Kavanaugh was notified privately of his top position on the examination list several weeks ago but the civil service commission delayed his certification to consider appeals for regrading by two of the applicants, Donaldson and Rifkin. After reviewing the examinations, the commission made no changes in ratings.

The relative standings of the applicants would be important only if Mr. Kavanaugh should die or resign within the next couple of years or so. The civil service law provides that the last examination list shall be kept as an active list for a limited period and that its active status may be renewed for a limited time by application of those on the previous examination list. Should the certified commissioner vacate his office during the time the list is active, the high man on that list would automatically become the new commissioner.

### Commerce Names Willis in Ga.

Commerce has appointed W. Paul Willis as general agent for Georgia. This appointment coincides with the admission of Commerce to the state. Mr. Willis has had 18 years of experience as a company field man in the territory. Mr. Willis has established offices in the Trust Company of Georgia building, Atlanta.

### To Revise Statistical Methods

TORONTO—The Ontario insurance department is now forming a new standing automobile insurance committee to study the form in which the province correlates insurance statistics. Necessary changes are to be suggested to the department. Representatives of three tariff and three independent companies will comprise the committee.

No change has been made in the method of collecting automobile insurance data for nearly 10 years and the present system is to be given a thorough overhauling and placed on a more modern operating basis.

# THIS WEEK IN INSURANCE



# Sabotage Threat Stimulates Interest in Fire Protection

### Effectivness of $CO_2$ Gas Is Shown in Extinguisher Demonstrations

NEW YORK—Emphasis on sabotage fires helped draw a record crowd to a fire-fighting demonstration put on by Walter Kidde & Co., manufacturer of fire fighting equipment, at its Bloomfield, N. J., plant near here. Interest in coping with sabotage fires was particularly keen because of the three almost simultaneous explosions in New Jersey and Pennsylvania which occurred only a few days before the demonstration.

P. W. Eberhart, the company's industrial manager, who conducted the demonstration, pointed out that arson is the most widely used type of sabotage and one of the most important means of fighting arson is to see that conditions are such that there can be no excuse for the "accidental" type of fire in which the arsonist specializes. Mr. Eberhart stressed the importance of organizing plant fire-fighting brigades.

**Schiff-Terhune Engineer Speaks**

E. W. Dart, chief engineer Schiff-Terhune & Co., prominent brokers, said that while insurance men are interested in sabotage they are not particularly worried about it. He ascribed this attitude to the fact that plants and other organizations protect themselves, first by properly organized fire brigades along the lines of high-class city fire departments and second, to having the best type of first aid fire fighting equipment available and having the personnel know how to use it. In the latter connection he pointed out that the carbon dioxide type of fire extinguisher featured in the demonstration has the advantage of wiping out the fire much as an eraser wipes off a pencil mark.

The demonstration began with the smallest type of hand equipment, gradually working up to the large fixed systems using a battery of several large-sized tanks. Mr. Eberhart said that while the fire extinguishing properties of carbon dioxide gas had long been known the problem was to get the gas out fast enough to be effective without freezing up the apparatus through the rapid expansion of the compressed gas and without setting up a type of turbulence which would draw air into the flames and feed them.

**Lauds Carbon Dioxide**

Mr. Eberhart said that the Lux extinguisher, manufactured by the Kidde company, has the widest range of use and is the one solution to the control of fire in airplane motors. He emphasized the advantage of carbon dioxide as having no destructive effect no matter what it is used on and leaving no mess to clean up afterward.

The first demonstration compared the Lux hand extinguisher with a one quart carbon tetrachloride extinguisher putting out flaming gasoline. In this, as in all the other demonstrations, the carbon dioxide type of extinguisher showed up much better than any other type used.

Another demonstration showed the effectiveness of carbon dioxide against flaming excelsior, lacquer, lacquer thinner, acetylene, gasoline, and alcohol. Other tests simulated fires in the bilge

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# Predict 6 Percent Premium Gain for the Year

### Losses to Be Higher, with Armistice Day Storm Adding Fillip

NEW YORK—With the record nearly made, it is a fair prediction that 1940 will prove to be a generally satisfactory period in fire insurance.

The total premium income it is estimated, will be about 6 percent greater than that of 1939. This is attributable in the main to increases in income from automobile, ocean marine, and in lesser measure to inland marine and special war risk covers of various kinds. Returns on straight fire business will show little if any gains.

Losses are likely to show an increase over those for 1939. The results will be affected by the Armistice Day windstorm in the middlewest. In addition, there were a number of bad windstorm losses in different sections of the south.

Aside from the exceptionally severe windstorm losses, companies were confronted with several heavy fire losses.

**Expense Is Still Headache**

The general expense element of the business, which has supplied a headache to company executives for years, will hover about the 50 percent mark, although some offices will exceed that figure. On the other hand, it is pointed out, companies writing a heavy volume of ocean marine and of automobile finance business, because of the modest commission allowance on the former, and the reduction in the commission now enforced on the latter, will profit thereby, and may reduce their general expense account by a point or two.

As to the banking division of the business, bonds carried are about on the same value level as the first of the year, while stock values have deteriorated approximately 13 percent. Despite the drop in market quotations the dividends from stocks have been well sustained, and with the era of industrial activity recently inaugurated in the country, there is every reason to expect a steady upward trend in stock values.

Relatively few changes in portfolios have taken place. There is always a certain amount of security shifting, but on the whole offices continue to maintain the general investment policy they have followed in recent years. Perhaps a greater amount of free cash is carried today than usual, but this would be promptly invested should attractive government or corporate issues make their appearance.

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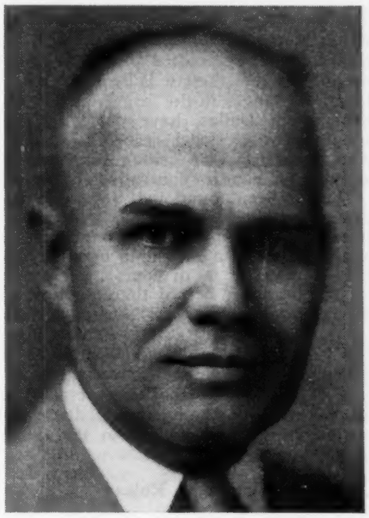
Following the practice of previous years employes of American and Bankers Indemnity distributed 71 baskets, each containing a complete Christmas dinner to poor families in Newark.

## Soon to Take Office as Neb. Insurance Director



C. C. FRAIZER

C. C. Fraizer will soon take office as insurance director of Nebraska. His home is in Aurora, Neb. He has already had a good introduction to the business, as he attended the recent midwinter meeting of the insurance commissioners in New York.

# Lloyds' Underwriter Gives Impressions on War Conditions

A letter from a Lloyds' underwriter in London to a prominent Chicago insurance man reveals some surprising facts on conditions in England today and reflects the impressions of an Englishman living in the midst of it all. His greatest reaction seems to be against the way the American newspapers handle the news from abroad and he wonders if British censorship does not operate to its own disadvantage.

Explaining that the greatest inconvenience of life under present conditions is the difficulty of transport, the man writes that even indiscriminate bombing affects London railways covering large areas. Naturally, this would affect the efficiency of city offices, whose workers live in suburbs situated sometimes up to 60 miles from London. As in the case of Lloyds, most large offices secured alternative accommodations in the country shortly before war was declared and most of them have their staffs there.

**Explains Lloyds' Office Situation**

"We have our Lloyds staff still in London and anyone who has anything to do with the market uses that office, but all the detail work is done at our country address where we are not subject to transport delays or cessation of work due to air raid 'alerts.' At Lloyds work is transferred from the room to cellars deep under Lloyds building when the 'alert' sounds and a matter of minutes per day is all the time lost.

"Incidentally," he continues, "I think the fact that we have ceased to call the siren an alarm and have started calling it an 'alert' is a pretty good indication of the way most people are taking the raids. They carry on with their work and walk about the streets and generally behave quite normally until danger is imminent and only then do they take cover."

He writes that it would be stupid to suggest that the enemy planes have not done quite a bit of damage in air raids, but they have not approached causing the chaos and destruction as some of the American newspapers report.

In giving what he calls "a concrete example," he said that driving to the city office from the country office means going through a large section of London all the way from southwest to east central, which is a 30 mile drive. On this trip one would pass thousands of houses, shops, factories, etc., and yet would not see 30 damaged buildings. He says he is confident that if an American could visit London, his greatest shock would be the proportion of property remaining undamaged and not the proportion destroyed. Individual streets have suffered, he writes, and look as bad as the photos shown in the American press. However, he claims, these fail to give a balanced picture of the damage as a whole.

**Comments on Food Situation**

"On the subject of air raids, I might feel inclined to think that merely sensational reporting had given a false impression, but that won't account for America's delusion on the subject of food. It is perfectly obvious that there is a general impression on your side that there is a shortage of food here. Most of my friends in America have offered to send me food and one even went so far as to send me an enormous case of essential foods which remains unopened to this day. (The letter was dated Oct. 30.) The rations are ample for anyone and are not even strictly enforced because it is often the case that due to large shipments retailers are asked to take more than their usual amounts. When food warehouses on the Thames were bombed and destroyed a month ago, I must admit that I thought we should see some signs of shortage, but there has been none."

He closes by saying that with few exceptions life is taking a normal course and at the moment he was living near the country office and divides his time between there and the city office. He writes that his wife spends all of her time at their home in Sussex about 19 miles from the south coast and the children are away in boarding school in Wiltshire.

## America Fore's New Farm and Hail Management

Left to right, seated—B. R. Walinder, new manager; Joseph E. Cryan, assistant manager; I. D. Goss, retiring manager; J. J. Lanoue, farm superintendent; C. A. Alexander, farm superintendent.

Standing—R. L. Chobotsky, collection manager; G. C. Edwards, hail superintendent; P. O. Johnson, farm engineer; E. E. Ross, assistant farm superintendent.

## Dearborn National Made Wise Tacoma Move

The following letter was received from Roy Martin, Jr., of Seattle, president of D. F. Broderick, Inc. (Washington):

"Apropos your story appearing on page 31 of the Dec. 5 issue of the magazine, entitled, "Tacoma Bridge Loss May Bring Litigation." For the sake of the record, I would like to advise you that the Dearborn National Insurance Company, through D. F. Broderick, Inc. (Washington), their underwriting managers, canceled their entire liability of $150,000 gross on the Tacoma Narrows Bridge. This cancellation was complete and final on Oct. 26, which was 13 days before the catastrophe occurred to the bridge.

## F. H. Hawley Is Honored

Chairman F. H. Hawley of Ohio Farmers was surprised the other evening when the officers and men of the home office gave him a dinner at Westfield Inn. President C. D. McVay presented him a statuette of the "Old Man on the Fence." These replicas have been presented to agents who have represented the company 25 or more years. Mr. Hawley has been connected with the company more than 50 years. Mr. Hawley feelingly responded to the presentation. Remarks also were made by Secretary J. C. Hiestand, Treasurer Clyde Jones, Assistant Secretary Geo. S. Valentine and Director John A. Weber.

Mr. and Mrs. Hawley left Wednesday for Florida to spend the winter months.

## Inspection Report Manual

A new supplement dated Dec. 1, 1940, to the Inspection Report Manual of 1932 has just been published. Copies of this supplement may be obtained at cost from the Western Actuarial Bureau, 222 West Adams street, Chicago.

## Chairman of Texas Commissioners Is Dead

WALTER C. WOODWARD

Walter C. Woodward, who died the other day after an illness of several months, was life insurance commissioner and chairman of the board of insurance commissioners of Texas. He died in a hospital at Coleman, Tex.

# CHICAGO

### CHICAGO BOARD NOMINATORS

The nominating committee of the Chicago Board, which will select a slate of officers, directors and two patrol committeemen to be voted upon in January at the annual meeting, consists of J. R. Cashel, western manager of Providence Washington; I. C. Faber, manager Cook county department of National Union; H. J. Lorber, Rollins-Burdick-Hunter Company; J. A. Naghten, John Naghten & Co., and August Torpe, Jr., August Torpe & Co. F. J. Sauter, Cook county manager of Aetna Fire group, reporting for the special committee on the Glidden memorial, said that a bronze plaque of J. S. Glidden, similar to the one for his father, H. H. Glidden, will be placed across from his father's in the Chicago Board auditorium.

The plaque will be modeled by Emory P. Seidel, well known sculptor, who made the one of H. H. Glidden. O. E. Aleshire, national president Modern Woodmen of America, will prepare the inscription to be made a part of the plaque.

The Chicago Board entertained its employes on Tuesday with the annual Christmas party, at which luncheon was served and a grab bag was in order. Mrs. Grace M. Horne, secretarial department, was in charge of the arrangements.

### INSURANCE CHORUS SINGS CAROLS

As is the annual custom, the Chorus of Chicago Insurance Men, under the direction of Wayne Howorth, has been singing Christmas carols during the noon hour in the lobby of the Insurance Exchange building, Chicago. Arrangements were made to broadcast some of the programs to a radio audience. The chorus of over 40 members is sponsored by a number of leading Chicago insurance organizations.

### MOORE, CASE EMPLOYES' PARTY

The Employes Association of Moore, Case, Lyman & Hubbard, Chicago, held its annual Christmas party in the office Monday evening. Dinner was served, followed by games and a grab bag. As usual, the association prepared and distributed 10 Christmas baskets to needy families in Chicago. Miss Eva Edmonds, chairman of the social committee, and Walter A. Schultz, assistant manager automobile department, association president, were in charge of arrangements.

### Denies Agent's Damage Plea

LOUISVILLE—A temporary injunction sought by L. A. McLean, No. 1 Normandie Village, to prevent others from soliciting renewals of insurance policies or divulging information about renewal dates of certain policies, was denied by the court of appeals. McLean, doing business as the Southern Insurance Company, 209 South Fifth, purchased from Harry W. Hamilton, who moved to California, the latter's agency. Hamilton's answer stated he had given 10 or 15 prospects from memory to Walter E. Payton (commission broker for Gaunt, Houston & Fitzhugh) but denied more than "problematical" damage of about $8 had been done.

### Mrs. Lillard Hartford Librarian

Mrs. Caroline E. Lillard, co-founder of the Hartford College of Law with her husband, the late George W. Lillard, has been appointed librarian of the Law College and its sister institution, the Hartford College of Insurance. Mrs. Lillard will have under her jurisdiction a library of over 14,000 books.

## Texas Violations Charged by Hall

DALLAS—"Texas local agents muct write their own policies," Fire Commissioner Hall has pointed out in a bulletin holding that the law is being violated. Local exchanges in the larger cities, particularly in Dallas, have protested the appointment of local recording agents who apparently are asking for licenses merely to handle controlled business.

"It has been found that several companies, or their supervising general or state agents, are performing one or more of the duties of a recording agent," Mr. Hall held. "It is, of course, necessary for the branch office of the company or the general agency to write certain types of policies for their agents; however, such a procedure should be followed only on policies covering property of a class which the general plan of operation of the company does not contemplate being written in the office of the local agent."

### Charges Violation of Rules

Mr. Hall also held that in certain cases business is being accepted from agents who have not been formally appointed on forms prescribed by the board to represent the company in question and this practice is held to be a violation of the agents' licensing law.

Complete compliance with the following rules of the insurance board is ordered:

"(1) All customary duties of a local recording agent, such as writing, signing, etc., of policies must be performed in the office of the recording agent by himself or someone in his own office duly authorized to act for him.

"(2) No company shall accept business from an agent who has not first been formally appointed by the company to represent that company and notice of appointment furnished by the board of insurance commissioners on such forms as the board may require. And, likewise, no recording agent may produce business for an insurance company without first being formally appointed by that company as its agent and notice of such appointment submitted to the Board."

Violation of either of these rules will subject the licenses of all interested parties to cancellation.

The Dallas Agents Association also has issued a bulletin charging companies with being "a little lax in the interpretation of the law, or, at least, have not lived up to the letter of the law."

## Heads Insurance Section of N. Y. Board of Trade

M. E. SPRAGUE

Mortimer E. Sprague, vice-president of Home, is the new chairman of the insurance section of the New York Board of Trade. In recent months the insurance section has become much more of a factor and it is being enthusiastically supported by many leaders in the business.

Arthur Snyder, treasurer of Alfred M. Best Co., was elected president of the New York Board of Trade. .

### New Pendergast-O'Malley Move

KANSAS CITY—Information opposing citations for contempt have been filed in federal court here by T. J. Pendergast, former political figure, and R. E. O'Malley, former Missouri superintendent. The petitions state that the contempt charges are based on information that is identical with that in the conspiracy charges against the two which were dismissed by the government. O'Malley and Pendergast claim that more than three years have elapsed since commission of the alleged contempt and the action is, therefore, barred.

They also call attention to the promise of M. M. Milligan, U. S. district attorney, in 1939, that he wouldn't prosecute them on further charges arising from the insurance rate case compromise if they pled guilty to income tax evasion, which they did.

### Iowa Corn Sealing Is Slow

DES MOINES—The corn sealing program in Iowa on the 1940 crop is reported as making slow progress with several new obstacles handicapping the program. It is believed that the total will fall short of that of a year ago.

Landlords are hesitating to take advantage of the loan or to give consent of storage to their tenants because of the provision which calls for three years' storage. The tendency in Iowa during the past year has been for the insurance companies to sell their farm properties and because of this they are slow to consent to the three years' storage provision.

There is a provision, however, that tenants can deliver corn to the government at the end of the first year if the landlord will not provide storage longer or if the tenant has to move.

### Johnston K. C. Secretary

KANSAS CITY—The executive committee of the Insurance Agents Association of Kansas City, which is composed of Raynolds Barnum, chairman; George Oppenheimer, Harry M. Gambrel, E. A. Bramwell and Cliff Johnston, has named Mr. Johnston secretary of the association. Miss Louise Price will act as executive secretary.

## Suggests Companies Help Pay for Office

### Commissioner Gontrum of Maryland Gives Views on Permanent Headquarters

Stating that he felt sure that the insurance companies would be glad to make sufficient contributions to support headquarters for an insurance commissioners centralized office, Commissioner John B. Gontrum of Maryland has written to Commissioner John C. Blackall of Connecticut, president of the Insurance Commissioners' Association, giving his opinion on the matter of selecting permanent headquarters for the organization. He said that the contributions from the insurance companies, if worked out on some pro rata plan, should leave no obligations incurred by the association.

Commissioner Gontrum in stressing the need for permanent headquarters, feels that there should be in charge a representative of the association who would collect and distribute the information of value to the commissioners and the companies, along the lines of the Bureau of Legislative Reference, which many of the states now have. He feels that it is immaterial whether or not the official in charge should be designated as secretary, but in reference to the opinions expressed by some of the commissioners, it might be advisable to continue the present plan of having as secretary one of the commissioners.

#### New York or Chicago Logical Location

He does not believe that the location of the office is a matter of any consequence, and that either New York or Chicago would be the logical place. The salary for such an office manager should be at least $5,000, and $10,000 would not be too much.

As to the matter of a pro rata plan for collecting contributions, Mr. Gontrum feels that it might be worked out on a basis of the number of insurance companies in the various states, the amount of their capital stock, or the amount of insurance business that is done in the various states.

Because a number of commissioners seem to fear that contributions from the insurance companies might place them under obligations, he said that probably the best way of receiving the money is to have the states contribute. He said that he plans to undertake in his own state to place the matter strongly before the board of public works so that the state shall be able to bear its share of the burden.

Each commissioner moving in his own orbit only comes into incidental contact with others, and during these rather uncertain times and probable difficult days ahead, he is convinced that state supervision of insurance will be much strengthened by having a central office or bureau of information for the association.

### Asks $45,000 MLU Fees

KANSAS CITY—The law firm of James P. Aylward has asked Circuit Judge Southern to allow $45,000 to it for work in connection with liquidation of Manufacturing Lumbermen's Underwriters. The firm stated that it acted as counsel for R. E. O'Malley, then superintendent, from November, 1936, to October, 1937, and later for G. A. S. Robertson, who succeeded him.

Home office employes of the **Home** sang Christmas carols Tuesday morning, the program being broadcast over the country-wide blue network, N. B. C.

**Murray E. Wyche**, correspondent for THE NATIONAL UNDERWRITER in Chattanooga, is a reserve officer in the army and has been ordered to active duty for one year.

# FIELD

### Blue Goose Memorial to Schively

About 250 attended the Christmas luncheon of the San Francisco Blue Goose, which was again a memorial to the late J. H. Schively, for years secretary of the Insurance Federation of California and wielder of the pond. For the past seven years, since Mr. Schively's death, the Blue Goose members have dedicated this Christmas season luncheon to him. J. L. McNab, former United States district attorney in San Francisco, spoke on patriotism, public service and Americanism. Jay W. Stevens, chief of the fire prevention bureau of the National Board, presided.

### Many Take Speaking Course

DETROIT—The success of the Michigan Fire Underwriters Association's courses in public speaking to prepare field men to meet speaking engagements was reviewed at the December meeting, with President R. J. Price, New York Underwriters, presiding. There are 24 field men enrolled in the class in Detroit and 15 more in the class at Lansing. The training is under direction of W. L. Friedman, Underwriters Service.

W. L. Nolan, assistant manager North British group, Detroit, and A. H. Zoet, western Michigan state agent, St. Paul F. & M., were admitted to membership.

### Travelers Fire Shifts

T. H. Walker, fire survey engineer of Travelers Fire and Charter Oak Fire, with headquarters in Boston, has been transferred to the 55 John street, New York, office in the same capacity.

The headquarters of Peter Palzis, special agent fire lines at San Francisco, for Travelers Fire, have been changed to the California State Life building, Sacramento.

### Pacific Northwest Meetings

The Oregon division of the Special Agents Association of the Pacific northwest will hold its annual meeting in Portland Jan. 6. That group will meet with the Washington division Jan. 10 in a joint annual meeting in Seattle.

The **Alamo Blue Goose** meeting in San Antonio, Tex., saw a moving picture on the mining and processing of sulphur in Texas. The annual party will be held Jan. 27.

**William McCormick** has joined Underwriters Adjusting on a permanent basis and is assigned to Davenport, Ia. He has been doing emergency adjusting for Underwriters Adjusting and for the Fire Companies Adjustment Bureau. Formerly he was in the contracting business at Joplin, Mo.

# NEW YORK

**BIG LOSSES IN NOVEMBER**

The New York "Journal of Commerce" reports the following fires in the United States and Canada in November as having caused damage of $100,000 or more: New Bedford, Mass., theater and six stores, $100,000; Norwood, Mass., dwelling, $125,000; Worcester, Mass., business block, $200,000; Metuchen, N. J., Celotex Corporation warehouse, $100,000; Bridgeville, Pa., chemical plant, $250,000; Braddock, Pa., six dwellings, fraternal hall, two business buildings and garage, $500,000; Newport, Ark., hardware and department stores, $125,000; Paris, Ark., convent, $100,000; Atlanta, Ga., armory, $250,000; Goose Creek, Tex., store, $100,000; Hitchcock, Tex., dwelling, $100,000; Lafayette, Ind., department store, $250,000; Glasgow, Ky., department store, $250,000; Milan, Mich., foundry, $500,000; Minneapolis, Minn., motor company, $100,000; Bucyrus, O., school, $100,000; Culver City, Cal., studio, $100,000; Los Angeles, Cal., radio factory, $500,000; Madera, Cal., theater and five business establishments, $150,000; Butte, Mont., five business buildings, $100,000; Port Townsend, Wash., wharf and warehouse, $100,000, and Winnipeg, Can., business block, $150,000.

**LONDON FIRE SERVICE BOOKLET**

American Reserve, the prominent fire reinsurance company, has gotten out a handsome illustrated booklet "The Fireman's War." It is dedicated "to the courageous men of the London Auxiliary Fire Service," and the text, written by John N. Cosgrove, gives an account of the magnificent work being done in the London fire service emergency setup. The pictures that appear are from "Life" magazine.

**STRUCTURAL RATING APPROVED**

Superintendent Pink of New York has approved the proposed structural rating of buildings as an aid to appraisement for property loans.

### Expect Minn. Appointment Soon

ST. PAUL, MINN.—Governor Stassen is expected to announce the appointment of a new insurance commissioner before the end of the year. It is understood he already has made his selection and all that is delaying the announcement is the acceptance of the nominee. The three men most prominently mentioned for the job are Newell Johnson, Bemidji, local agent; Ellis Sherman, supervisor Penn Mutual Life, Minneapolis, and Ray Cory, Austin, Minn., life agent. Herbert Nelson, Travelers, Minneapolis, who was a strong contender for the post, has withdrawn.

Mr. Johnson was expected in St. Paul this week to confer with Governor Stassen. The political writer for a Minneapolis daily insists he has the inside track. Commissioner Frank Yetka's term expires Feb. 1, 1941.

## Editor C. M. Cartwright Now Slowly Recuperating in His New York Hotel

NEW YORK—Managing Editor C. M. Cartwright of The National Underwriter, who was stricken here the night of Dec. 8 with a severe abdominal attack accompanied by a hemorrhage, is steadily recuperating but is still confined to his bed. He had two blood transfusions but later laboratory tests show more are unnecessary. His medical adviser, Dr. Jacob Cohen, hopes to have him gain sufficient strength so that he can return to his home in Evanston, Ill., in 10 days or so. Mrs. Cartwright has been with him constantly, acting as his nurse.

### Pickett Is Houston Mayor

C. N. Pickett, formerly manager of the Insurance Exchange of Houston, has been elected mayor of Houston, defeating the incumbent who has held the office for seven consecutive terms. Mr. Pickett was one of the original "four horsemen from Texas," a term describing the four full-time paid managers of the local exchanges because the four Texas secretaries attended the midyear and annual conventions of the National Association of Insurance agents en masse. The other three "horsemen" were and are D. G. Foreman of the Fort Worth Exchange, who is also secretary of the Texas Association of Insurance Agents; F. F. Ludolph, for more than 25 years secretary of the San Antonio Exchange, and Alfonso Johnson of the Dallas Insurance Agents Association. John W. Daniel of Houston has now replaced Mr. Pickett in the Texas quartet.

After serving two years as vice-mayor, **Charles Dean,** local agent, has been elected mayor of Collierville, Tenn., by the city council to succeed R. L. Strong, who died recently in office.

## Fire Prevention Week Leaders

### Kansas Association, Cities in Each State Are Commended

NEW YORK — The international committee of judges appointed to review the reports covering the Fire Prevention Week campaign activities of last October in this country and Canada, has issued its report. The Kansas Fire Prevention Association was commended for the most outstanding accomplishment.

Winning cities in each of the states are: Alabama, Tuscaloosa; Alaska, Ketchikan; Arizona, Prescott; Arkansas, Pine Bluff; California, Los Angeles; Colorado, Fort Collins; Connecticut, Hartford; Delaware, Wilmington; Florida, New Smyrna Beach; Georgia, Atlanta; Hawaii, Hilo; Idaho, Boise; Illinois, Savanna; Indiana, Fort Wayne and Anderson, tied; Iowa, Mason City; Kansas, Wichita; Kentucky, Louisville; Louisiana, Crowley; Maine, Portland; Maryland, , Salisbury; Massachusetts, Boston; Michigan, Grand Rapids; Minnesota, Minneapolis; Mississippi, Hattiesburg; Missouri, St. Louis; Montana, Bozeman; Nebraska, North Platte; New Hampshire, Concord; Nevada, Reno; New Jersey, Jersey City; New Mexico, Carlsbad and Raton, tied; New York, Schenectady; North Carolina, Salisbury; North Dakota, Valley City; Ohio, Cleveland; Oklahoma, Bristow and Stillwater, tied; Oregon, Portland; Pennsylvania, Philadelphia; Rhode Island, Providence; South Carolina, Charleston; South Dakota, Huron; Tennessee, Memphis; Texas, Abilene; Utah, Ogden; Vermont, Rutland; Virginia, Roanoke; Washington, Spokane and Seattle, tied; West Virginia, Parkersburg; Wisconsin, Milwaukee; Wyoming, Cheyenne.

The committee reviewing the reports submitted by T. Alfred Fleming, director of conversation of the National Board, was composed of W. E. Mallalieu, general manager National Board; A. R. Small, Underwriters' Laboratories, president National Fire Protection Association; A. Leslie Ham, manager Canadian Fire Underwriters Association, and Fred Shepperd, manager International Association of Fire Chiefs.

## Spurt in Fire Business as Year Draws to Close

Some of the companies report that they are enjoying an unusual spurt in business as the year draws to a close. Much of the insurance involved in the national defense program seems to be crystallizing right now and some large orders are being placed, including broad form U. & O. with vandalism. There seems to be quite a tendency of assured to cancel and rewrite for a longer term, possibly because they have enjoyed good profits this year and feel that this is a wise time to make expenditures. Companies report that several firms that have never before carried U. & O. are now buying this cover in view of the fact that they are manufacturing war materials.

The increased purchase of U. & O. seems to be largely on the part of medium sized concerns rather than the very largest assured.



# COMPANIES

## Louis Jervey Now America Fore Vice-president

Louis Jervey, secretary in charge of the southern department of America Fore in Atlanta, has been elected vice-president of the fire companies.

Mr. Jervey started in the insurance business in Atlanta in 1911. After serving in the war, he reentered the business and in 1920 went with America Fore.

LOUIS P. JERVEY

### Special Agent in Virginia

For the first eight years Mr. Jervey served as special agent for Fidelity-Phenix in Virginia. Then for two years he was agency superintendent in the southeastern department with headquarters at the home office. In 1930 the southeastern department opened offices in Atlanta, Ga., where Mr. Jervey went as assistant secretary. In 1937 he was appointed secretary in complete charge of the department.

In July of this year upon the resignation of Secretary O. F. Grover of the southwestern department, that unit and the southeastern department were combined and Mr. Jervey was placed in charge.

Mr. Jervey is a brother of Charles P. Jervey, assistant secretary of Travelers Fire.

### New Owner of Church Insurer

Ownership and control of Church Properties Fire, which insures the property of the Episcopal church, has now been acquired by the Church Pension Fund. The investment of the fund in the fire company is now about $370,000. The surplus to policyholders of Church Properties Fire is about $438,000. It has insurance on about 3,250 Episcopal churches as well as certain other ecclesiastical institutions. The management claims that in the past five years it has saved the Episcopal church about $150,000 in the cost of its fire insurance. Parish Securities Corporation previously owned Church Properties Fire.

### Excelsior Pays 20c Dividend

A dividend of 20 cents was paid by Excelsior of Syracuse Dec. 23. For the ninth consecutive year Excelsior has shown a gain in premiums.

### Buffalo Pays Extra of $1.50

Buffalo has declared a regular dividend of $3 per share and an extra of $1.50, payable Dec. 28, to stock of Dec. 23.

### America Fore Extra Dividends

Continental and Fidelity-Phenix have each declared a semi-annual dividend of 80 cents and an extra of 40 cents payable Jan. 10 to stock of record Dec. 31.

### Resolute Fire in Hartford

Resolute Fire of Providence has moved its home office to 50 Lewis street, Hartford.

## Former Travelers Man New Maine Commissioner

PORTLAND, ME.—Pearce J. Francis has been appointed insurance commissioner of Maine, subject to confirmation by the executive council. He resigned a year ago after having served for 14 years as Maine manager for Travelers, life and accident lines. He succeeds C. W. Lovejoy, who resigned to join Massachusetts Bonding..

**C. C. Chandler,** special agent for Brame, Ward & Hancock, Montgomery, and son-in-law of Charles L. Gandy, prominent Birmingham local agent, is recovering in a Birmingham hospital following a kidney stone operation.

# EDITORIAL COMMENT

## Insurance Beyond the City Limits

THE 150 percent loss ratio of Federal Crop Insurance Corporation in 1940, which was its second year of operation, compares with a ratio of about 140 percent during its first year in the business. Nonetheless, Manager L. K. Smith, is not discouraged. Comes a normal crop year, he predicts, and the premiums will exceed the indemnities.

Insurance beyond the city limits always presents acute problems. Regular farm insurance is now returning a profit, but farm underwriters always have their fingers crossed because fresh in their memories is the long unbroken period of years during which the loss ratio was uncomfortably close to the 100 mark. Regular hail insurance produced a profit this year, but it is always nip and tuck in that line and general insurance executives are prone to rib the hail specialists when they predict that next year all will be different. We will touch lightly on the embarrassing subject of turkeys. As we understand it, freeze insurance in the sunny southland that has been tried on an experimental basis, made little contribution to dividends.

Men seasoned in farm and hail insurance predicted that the experience of the FCIC would be just what it has turned out to be. They couldn't predict precisely each year what factor would cause the loss, but they knew of dozens of factors that would come into play at various times and in various combinations.

As said before, the government should make public a statement of the expenses incident to operation of the crop insurance scheme so that the taxpayers may understand the total cost and then decide whether it is a proper undertaking, from the standpoint of farm welfare, regardless of its failure to meet the business tests that are applied to private insurance schemes. The loss cost is by no means the total cost.

## Reforming Agency Conditions

WE were impressed by two articles that appeared in THE NATIONAL UNDERWRITER on the same day. One referred to the new agency licensing requirements in Pennsylvania, whereunder the department has removed the condition that an applicant must have had nine month's insurance training in a licensed office or certain education. The other was the statement of H. Donald Holmes, former president of the New Jersey Association of Underwriters, that little progress has been made in the project of the New Jersey agents to induce the companies to sign a pledge to abide by certain practices in the state.

These two illustrations, we think, emphasize the danger of agency organizations seeking to encompass too large a measure of reform at one stroke. Organizations, especially at meetings, are likely to become imbued with a fervor for reform and to decide upon a course of action that is idealistic and ambitious without taking sufficiently into consideration the realities of the situation and the limitations of human nature in cooperative undertakings. This is true not only of agents' organizations but of companies. We have seen company executives, in the fervor and stimulation of the occasion, embark upon programs that later had to be modified or abandoned, sometimes under rather humiliating circumstances.

The effect is probably worse than if no movement toward reform had been undertaken, because then the inertia becomes deadlier than ever and the cynics become triumphant.

In this matter of improving the caliber of agents and conditions in the field, it seems to us that the proper procedure is to engage in a long range crusade, to induce the companies wholeheartedly to observe the spirit of the movement and to strive for gradual improvement.

The National Association of Life Underwriters for the past six or seven years has been hitting hard in the direction of causing the companies to eradicate unfit agents everywhere, to eliminate part-timers in urban centers and to improve the training and education of qualified agents. That program has certainly brought results. It is religiously and enthusiastically supported by an increasing number of companies who are now heard to utter practically the same battle cries that the agents have been uttering. Several companies that have sought to improve the character of their representation are already able to point to company benefits. The life insurance agents' organization has avoided particularizing the program to too great an extent, to fix deadlines, etc. That, we believe, has been a sound procedure. Even to the extent that they did particularize their agreement with the companies providing for elimination of part-timers in urban centers, the agents ran into difficulty. One of the very largest companies, and one of the most important to the effective working of the agreement, withdrew its signature because it desired to put under contract a certain number of part-timers in urban centers where it felt that the men would eventually engage in life insurance on a full time basis.

A program of this kind may seem to promise less than recourse to legislation or to an iron-clad agreement with companies, binding both agents and insurers to observe defined and particularized practices, but in the long run we are convinced that it offers greater hope of improvement.

# PERSONAL SIDE OF THE BUSINESS

**H. W. Catteron**, survey engineer Travelers Fire, Dayton, O., was badly injured in an automobile accident in London, O. He was given first aid and then removed to a hospital in Dayton.

A son was born to **J. Roth Crabbe**, Ohio deputy superintendent of insurance, and Mrs. Crabbe in White Cross Hospital, Columbus.

**Clarence T. Hubbard**, secretary of Automobile, is author of an article that appeared in the Dec. 16 edition of "Barron's." It is entitled "Profitable Pointers in House Insurance." It presents in clear language some of the interesting insurance services of the day, including the personal property floater, extended coverage, additional living expense cover, rents and rental value insurance.

**Miss Lillian Baker**, director of examinations in the Massachusetts insurance department, has retired following 50 years service. During the administrations of Commissioners Hardison, Hobbs and Monk she was the close confidant of the commissioners and authority on all the office details of the department. Miss Baker was given a dinner in honor of her long service in Cambridge the past week.

## DEATHS

**Norbert P. McGovern**, 42, Iowa state agent of St. Paul Fire & Marine and president of the Iowa Association of Fire Underwriters, died in a Mason City hospital an hour after a heart attack there. He was born in Rochester, Minn., and was associated with his father in an agency there. He went to Des Moines in 1923 as special agent of the St. Paul F. & M. He recently was appointed state agent. He was active in the Iowa Blue Goose and the members of that organization and the Fire Underwriters Association attended the funeral in Des Moines in a body. Burial was at Rochester.

News of the death of **Charles I. Brooks**, prominent real estate broker of Miami, has reached New York. Prior to going to Florida Mr. Brooks was secretary of Casualty Company of America, long since defunct. Before that he had been special agent in New York state for Weed & Kennedy, United States managers of what was commonly termed the "Dutch fleet" of fire companies. Surviving are the wife, a son, R. J., and a brother, Alonzo, the latter having been connected with the accident department of Metropolitan Casualty a number of years ago.

**Rush B. McClure**, 48, branch manager of the Royal Exchange group, Chicago, died at the Evanston Hospital after a two day illness. Funeral services were held on Saturday at Hebblethwaite's parlors, Evanston, and on Sunday at his boyhood home at Bicknell, Ind. Interment was at Bruceville, Ind.

Mr. McClure had been with Royal Exchange for 15 years, the first four at the Indanapolis office and the last 11 as branch manager of the group in Chicago. Prior to that he was with National Inspection, Springfield F. & M., and Royal. He was a member of the Western Underwriters Association and the Indiana Fire Underwriters Association. A son, Franklin D. McClure, is with the Chicago office of Fireman's Fund.

**Fred W. Evans**, 91, chief agent in Canada and in Montreal for Home, died at St. Hilaire where he had been residing for about 15 years. He was in the insurance business and retired more than 20 years ago, except for his activities with Home. He was former mayor of Westmount, Que.

**Carl Van der Voort**, 66, an organizer of the Pittsburgh Lumbermen's Mutual and former secretary, died. He was born in Harveysburg, O., and was graduated from the University of Cincinnati and the Harvard Law School. In 1915 he gave up his law practice to devote his entire time to the insurance field. He organized the partnership of Carl Van der Voort & Co., and remained with it until his retirement in 1939. The firm continued as the Van der Voort Company. He suggested changes to simplify forms which are now embodied in modern policies.

**Joseph Brownlow**, 22, son of Marvin Brownlow, manager of Underwriters Salvage Co., Chicago, was buried Friday morning in Springfield, Mo., where he was killed in an automobile accident the day before he was to leave for his home in Evanston, Ill., for Christmas vacation. He was a student at Drury College in Springfield. The Brownlows were originally from there and moved to Chicago three years ago when Mr. Brownlow became manager of Underwriters Salvage Co. A short time after they had been in Chicago Mrs. Brownlow died. There is a younger son, James, who lives with his father in Evanston.

**I. G. Carothers**, 40, for 11 years an adjuster with the Youngstown branch of the Western Adjustment, died a few days ago. He had undergone an operation in a hospital in Sharon, Pa. Burial was made at Sharpsville, Pa. The Western Adjustment was largely represented at the funeral.

**J. Malcolm Bradfield** of the Bradfield & Rhudy general agency of Jacksonville, Fla., who died the other day, entered the insurance business in 1912 as engineer and inspector for the Southeastern Underwriters Association. Most of his work was in Virginia. After returning from the war, he returned to the S.E.U.A. in 1919 as chief inspector in Atlanta. The next year he became assistant chief engineer. In 1921 he resigned to establish the general agency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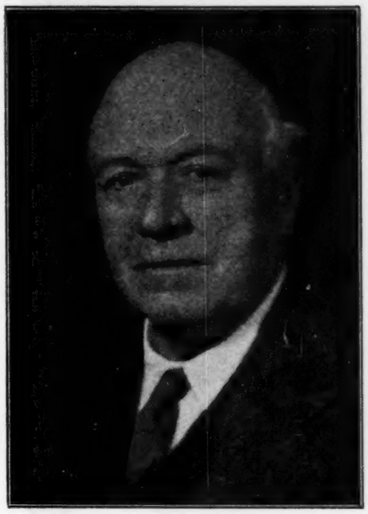
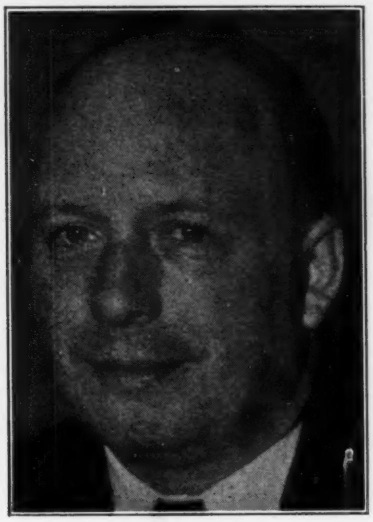
## Stage National Xmas Party Again



ROSSE CASE



ALEX CASE

Rosse Case and his son, Alex Case, of the prominent Case & Son agency of Marion, Kan., again arranged a nation-wide toast for a group of about 100 of their insurance friends on Christmas day. The party took place at one minute past 11, central time, and at the identical hour in other parts of the country. Rosse and Alex wrote to each member of the group as they have in the past, listing those in the party and suggesting the toast that is to be spoken simultaneously as follows:

"Here's to the friends we class as old.
And here's to those that we class as new;
May the new soon grow to us old,
And the old ne'er grow to us new."

department of the C. M. McCrory Company of Jacksonville. In 1928 he purchased the general agency department and formed a partnership with J. T. Rhudy operating as Bradfield & Rhudy.

Mr. Bradfield was born in Rock Hill, S. C., in 1889. His earlier experience was as an electrical engineer.

**H. T. Nelson,** 59, local agent at South Charleston, O., died from a heart attack after a two-day illness.

**C. L. Flanders** of the Flanders Brothers agency, Marietta, O., died.

**W. H. Tedrow,** pioneer Corydon, Ia., local agent, died there after more than 30 years in the insurance business. The agency will be continued by J. T. Cumming, who has been associated with Mr. Tedrow for several years.

### Defense Plans Bring New Fire Prevention Interest

(CONTINUED FROM PAGE 2)

of a boat, a paint cabinet, a gasoline truck, an airplane motor, an electric motor, a dip tank and a large building. The latter showed how a fixed unit can be used, set off either by one of the three usual automatic alarm systems or manually. A full size replica of a power boat was used to demonstrate how the carbon dioxide system can be used to detect and extinguish fires in yachts or other boats.

In spite of a cold drizzle throughout the afternoon the audience was exceptionally interested and responsive. An unusually large number volunteered to try out the apparatus and it was considered significant that those who had never used a carbon dioxide extinguisher before managed to extinguish flames with about as much dispatch as the company's own staff, indicating that no special skill is required in handling this type of equipment.

Most of those attending the demonstration were from several large industrial corporations. A property management firm had a number of men on hand, as did the United States army engineers. The audience included about 30 men who are studying the organization of plant fire brigades in a course conducted by Mr. Dart.

### Phillips Speaks in Springfield

SPRINGFIELD, MASS. — H. K. Phillips, Association of Casualty and Surety Executives, spoke to the Springfield Board on public relations in the casualty and surety fields. President R. S. Redfield presided. It was voted to change the fiscal year to begin Sept. 1 to conform with the state agents' association.

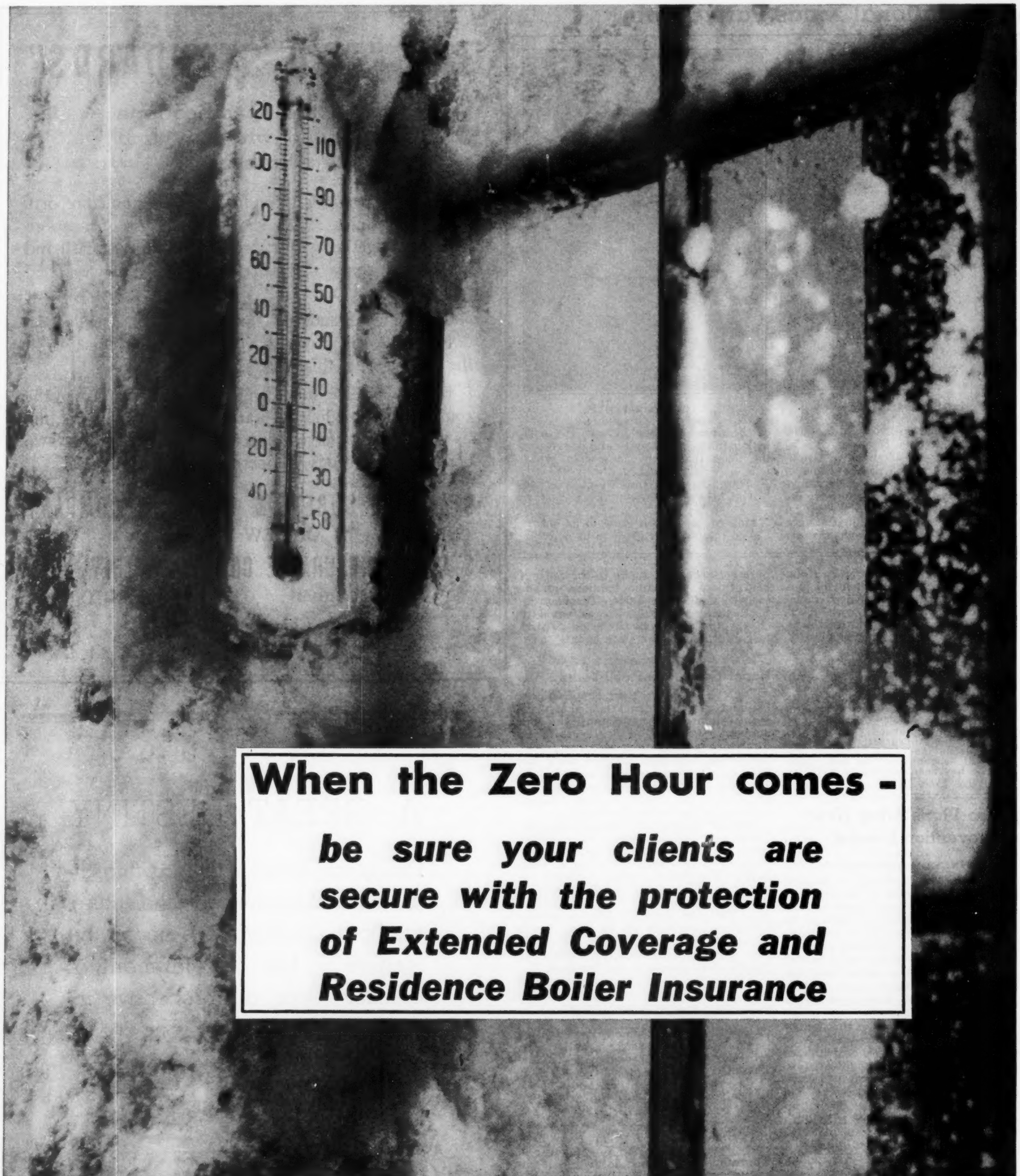
### Honor Colo. Agent's 50 Years

DENVER—More than 50 prominent fire and casualty men attended a testimonial dinner here to celebrate the 50th anniversary of Maj. A. F. Reeves in the local agency business at Montrose, Colo. The event had been planned since last May by a committee composed of C. V. Rutledge, North British; Clarence Cobb of Cobb & Stebbins and Henry Schwartz, Phoenix of Hartford.

The placecards used carried two pictures, one of Major Reeves as he looked when he started in the local agency business in 1890 and another as he looks today. He was presented a library radio by Toastmaster J. R. Gardner, president Merchants Fire of Denver. Mr. Rutledge awarded him a service plaque in honor of his 47 years as an agent of the North British. He also was given a scroll inscribed with the names of all guests at the luncheon.

Among the many now prominent men with whom Major Reeves worked in his early years as a local agent were: O. E. Lane, now president of the Fire Association; Paul B. Sommers, president of the American of Newark; Frank White, retired, secretary Fireman's Fund; Neal Bassett, U. S. manager of the Accident & Casualty; the late Fred Rhodes of the Aetna Fire and A. T. Bailey, Pacific Coast manager North British.

The new Thornton building has been opened in Fond du Lac Wis., by **W. C. Thornton,** well known local agent and former president of the Wisconsin Association of Insurance Agents. The McDermott-Thornton agency and the First Federal Savings & Loan Association, of which Mr. Thornton is president, are among the tenants of the new structure.


When the Zero Hour comes -
be sure your clients are secure with the protection of Extended Coverage and Residence Boiler Insurance

The NATIONAL UNDERWRITER

December 26, 1940 CASUALTY AND SURETY SECTION Page Eleven

# 1940 Is Closing as Good Year in Casualty-Surety

### Expect Increase in Premiums and Profit to Be Shown in Statements

NEW YORK—Casualty and surety officials express themselves as being content with the experience of the business since the first of the year, and should no unusual situation develop during the next few days, will mark down 1940 as a period of modest profit.

An increase in premium income is confidently predicted, the gain in so far as casualty interests are concerned coming from workmen's compensation, automobile and general liability lines, with lesser advances from the personal accident, steam boiler, burglary, plate glass and other divisions.

**Rate Cuts Are Felt**

The anticipated gains in compensation premiums due to the expansion of industries given contracts in connection with the national defense program, will be offset to a considerable degree by the rate reductions that have taken place in many states. What the loss experience is likely to be is a subject of much conjecture. Underwriters fear the accident frequency to be encountered will at least equal that during the world war era, while others maintain that industry is far more intelligently equipped to turn out war supplies than it was 25 years ago. Profiting by the lessons of that period, government officials early compiled a complete listing of all plants capable of manufacturing material needed for the army, the navy and in awarding contracts for whatever is required have selected as far as possible concerns qualified for the particular task, and one with which their employes are familiar. During the world war contracts were awarded manufacturers who had scant knowledge of what was required and had to call in experts to supervise and train the personnel. The result was that green men working with machines of which they had little knowledge suffered numerous injuries.

**Tendency to Broaden Coverages**

Today casualty engineers have been active in advising assured as to the use of accident prevention appliances, and are confident that as a result manufacturers and operators are more alert in guarding against hazards today than at any previous time.

The tendency to broaden coverages under practically all forms of casualty policies, as well as surety bonds, has been pronounced, which means the carriers for the same money, are liable today in far greater degree than at any previous time in the history of the industry.

(CONTINUED ON PAGE 23)

# Surety Underwriters Are Faced with Many Puzzles

By F. S. PERRYMAN
Secretary Royal Indemnity

When reviewing the state of the reinsurance market for casualty and surety business it is convenient to look at the casualty and the bonding lines separately. As regards the former a larger part of the casualty lines premium volume is made up of compensation, personal injury and property damage liability insurance, that is to say the third party lines. These are usually reinsured on an excess basis, the excess being per accident. Thus reinsurance on these lines is more in the nature of catastrophe reinsurance, particularly in the case of larger carriers that can afford to carry reasonable retentions per accident. Most carriers reinsure their so-called liability lines either with a domestic reinsurance company or direct with Lloyds of London, although occasionally there will be found a reinsurance pool between direct-writing carriers.

If the business is reinsured with a domestic reinsurance company it is quite likely that a sizable portion of the catastrophe hazard is retroceded to London Lloyds. Third party reinsurance, on the basis of an excess per accident, being in the nature of catastrophe reinsurance requires the building up of catastrophe reserves. It is thus unfortunate that the present income tax laws do not encourage such building up of such reserve, for these being regarded as contingent reserves are not deductible for income tax purposes. In effect, this increases the cost of reinsurance to the direct-writing carrier and at a time when there would be advantages in building up a local market.

**Aggregate Limits**

A minor source of annoyance is the difficulty of arriving at satisfactory reinsurance arrangements for risks subject to aggregate limits—these difficulties arise out of the unsatisfactory state of present rating schemes for large risks of this character.

The other casualty insurances do not usually involve such sizable amounts in respect of any one occurrence and hence there is not as much necessity for large excess covers, except in the case of certain burglary covers and some boiler and machinery covers. In such cases it is doubtless true that a large amount of the ultimate catastrophe coverage is carried by London Lloyds just as it is in respect of third party lines.

The present war situation would naturally tend to cause and doubtless has caused many carriers, reinsurance as well as direct writing, to reduce their commitments with London Lloyds; in any event their direct commitments—although this is not always easy, if indeed possible, because of the lack of a satisfactory alternative market. Lloyds have, of course, anticipated this kind of thing and have long since taken various corrective measures, such as the deposits they have made here for the purpose of meeting American claims.

Generally speaking, however, the casualty lines are not subject to extremely large castastrophic losses, that is to say beyond the capacity of an individual company or the local reinsurance market to handle conveniently; actually the more serious dangers to which casualty insurance carriers are subject are those resulting from general economic changes affecting the whole of the portfolio; for example, those which gave rise to the alarmingly high compensation loss ratios in the early '30s. It is difficult, however, to devise satisfactory reinsurance safeguards against these dangers, for in reality the guarding against them is the concern of underwriting and not of reinsurance. Some lines of insurance, however, such as those cited above, do involve quite large possible losses; another part of the casualty field where such possibility exists is that of aviation risks, more particularly airline passenger liability; doubtless for these risks in the majority of instances the catastrophe covers ultimately finds it way to Lloyds, particularly because of the lack of a sufficiently large local market, although there are portents that attempts will be made to organize such a local aviation reinsurance market.

As regards the bonding lines most current reinsurance problems here arise on account of the present defense and rearmament program, which has caused the recent tremendous activity in respect of construction and performance contacts. These often involve fantastic amounts of money and require the whole of the direct-writing and reinsurance market to absorb them. Such contracts carry with them all sorts of questions which are easier to ask than to answer—questions, for instance, of the effects of possible inflation, sabotage and the inevitable aftermath of the crisis. Undoubtedly bids for such contracts, arising out of the emergency program, are put together taking into account the extraordinary conditions and containing a considerable margin, with the result that the bonding of such contracts is not as hazardous as it otherwise might be. And again, the government is in a mood to cooperate, for the country wants to get things done.

**Reaction and Readjustment**

As far as the surety market is concerned, underwriters have learned a good deal in the last past decade—if they did not they never will—and are attempting to deal with these contracts on as sensible and conservative a basis as possible. Doubtless there will be losses—or at any rate claims—but the underwriters hope that these will be kept within reasonable bounds. Of course, a lot will depend on the course this crisis takes. While it continues there should be comparatively little trouble with these contracts from the point of view of the bonding companies, but what of the inevitable aftermath, the reaction and the readjustment to different conditions? These large bonds require a lot of spreading around, particularly as underwriters are conservatively restricting their commitments. A great deal of the reinsurance cover required takes the form of coinsurance with each company signing for its own share and this seems a much more sensible arrangement than to have the originating carrier sign for the whole amount, often for an extremely large sum, and then reinsuring. This coinsurance is of necessity with authorized carriers and furthermore most of what reinsurance is placed is with authorized direct-writing or reinsurance carriers.

As I said before, underwriters are requiring full information and are writing these emergency contracts as much as possible on ordinary suretyship lines and most of them believe that in many cases these bonds, particularly those covering government contracts, are more acceptable than say a bond for the same contractor would have been a few years ago covering a private contract.

All in all the surety companies and the reinsurance market are doing their best to help the rearmament and defense program along and are trying to steer, at any rate their end of it, along a sound and sensible course. Nevertheless, on account of the very magnitude of the program and the urgency, the problems I have mentioned throw most grave responsibilities on the surety business, both direct-writing and reinsurance.

# Lloyds Again Loser in Famous Ottawa Bank Case

### U. S. Court of Appeals Holds London Underwriters Under Bankers Bond

The celebrated case of First National Bank of Ottawa, Ill., vs. London Lloyds has been decided by the United States circuit court of appeals in favor of the bank and the registered mail insurers of the Federal Reserve Bank of Chicago. It was a clear cut decision and the registered mail insurers are allowed interest at the rate of 5 percent on the amount in controversy, $60,000, from Oct. 6, 1938. The Chicago law firm of Eckert & Peterson represents the registered mail insurers.

London Lloyds, it will be recalled, had a bankers blanket bond on the Ottawa bank in the amount of $100,000. The contract provided that Lloyds would make good to the bank all losses that it might sustain by reason of any money being stolen while in transit in the custody of any of the bank's servants or messengers.

**Loss Sustained Oct. 5, 1938**

On Oct. 5, 1938, the bank requested the Federal Reserve Bank of Chicago to forward to it $60,000 in currency. The next day the Federal Reserve Bank made up two packages of paper currency aggregating $60,000, enclosed them in sealed cloth cags and deposited them in the United States registered mail and debited the Ottawa bank's deposit ac-

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# Principles Involved in Railroad Appeal Bonds

*This is the second installment of a paper by M. Barratt Walker, director and former vice-president of U. S. F. & G., on railroad appeal bonds.*

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The subject of preferences has many ramifications, and the developments over more than half a century illustrate the stubbornly contested struggle between vested rights and security on the one hand and equity and justice and common sense modern business administration on the other, not to mention the humanitarian aspect of the changing conditions as reflected in dealing with claims for personal injuries.

Claims for torts—that is, as here used, damage to property and injury to persons, whether employes or otherwise, through the negligence of the railroad—although on rare occasions allowed under the special equities doctrine, or as operating expenses or under state statute, or under the initial order of court appointing a receiver, were held generally, particularly in the eighth circuit, as not entitled to preference on the theory that such claims lacked the indispensable element of a preferential claim in that they were not based upon any consideration that inures to the benefit of the mortgage security; that the obligation on which the claims rest contributed nothing to the protection, preservation, or value of the estate, but that, on the contrary, the negligence of the mortgagor on which such claims are based neither produces an income nor enhances the value of the property and, if repeated or long continued, would lessen or destroy such value. This doctrine is a good example of the kind of hard cases that are said to make bad law.

### Quotes Professor Fordham

Professor Fordham, writing in the Minnesota Law Review of February, 1931, said:

"The decisions are so clearly harmonious in denying to tort claims the character of necessary operating expenses under our rule that it may seem idle to give the matter special attention; that the Supreme Court had not passed on the question, and cites the Riley case, 70 Fed. 32, as the leading authority against the allowance of such claims; yet in an early St. Louis & San Francisco receivership in 1916, Judge Sanborn authorized payment by the receivers of a judgment for personal injuries obtained by an employe seven years before the receivership."

And it is a fact the same court as late as 1939 denied a similar claim in the Wabash receivership. Incidentally, the same writer prophetically suggested that preferred claims be made statutory liens, as has been substantially accomplished by Sec. 77 of the national bankruptcy act, as amended, and hereinafter set forth.

In some of the early cases no distinction was made between claims for personal injuries to employes or others, and in others the relation of the claimant to the railroad is not even mentioned.

### Morrison Case Leads

Coming to the question of the surety, whether compensated or not, on appeal and other judicial bonds for railroads, we find that the first case involving this question was the famous Morrison case in 1889 mentioned above and referred to more fully hereinafter, in which an individual surety, with security, on an injunction bond was allowed preference and payment under the special equities of the case. That case has never been reversed or modified and still stands as the leading case on the subject. The weight of authority, as will presently be shown, has been in favor of the surety preference, although there have been some exceptions.

Brief reference will be made to some of the cases hereafter, although, as will appear, they are not now important as precedents in view of statutory changes in the law.

Why, it may be asked, if tort claims have been denied preference and payment and surety claims sometimes disallowed, was not the question settled, and why were such claims so frequently being pressed in the courts through the years? The answer is, the question was not settled right and, like many other questions, when not settled right will not stay settled. Students of the law have long noted that when the courts, especially of last resort, get off the track and render decisions which insult the intelligence and shock the conscience because of their gross injustice, however technically correct they may seem to be, the courts have a lot of explaining to do. After such a decision in an important case, there follows the familiar pattern of explanation, exception, qualification, and confusion, until finally reversed or corrected by statute.

### Recalls Prewitt Case

Surety lawyers who read these words will at once recall the Prewitt case (1906), 202 U. S. 246, in which the Supreme Court, by a divided count, held:

"A state has the power to prevent a foreign corporation from doing business at all within its borders unless such prohibition is so conditioned as to violate the federal constitution, and a state statute, which without requiring a foreign insurance company to enter into any agreement not to remove in the federal courts cases commenced against it in the state courts, provided that if the company does so remove such a case its license to do business within the state shall thereupon be revoked, is not unconstitutional."

As is, of course, well known, surety companies suffered under that decision for 21 years, when it was reversed and the reasoning of the minority decision adopted. Terral v. Burke Const. Co. (1922) 257 U. S. 529.

A detached observer, say a visiting lawyer from Mars, might find it a bit difficult to understand why the claim for a dead cow who came to her demise while trespassing on the tracks of the railroad in search of pastures new is entitled to preference and payment, while the claim of the survivors of a dead engineer, who lost his life while in the line of duty and while serving the railroad and through its negligence, is not; or, worse, why a steel corporation is entitled to preference and payment for thousands of tons of steel rail, together with other claimants for labor, material and supplies, cars, coal, rolling stock, construction work, taxes, traffic balances, rent, bridge repairs, cross-ties, board and lodging for employes, and even legal services, while the surety without security is generally protected but sometimes not, and the rights of the dead and the maimed, whether employe or public, are left to such crumbs as a general creditor may receive at some uncertain date, perhaps in the distant future. It might be a bit difficult to see how an animal killed while trespassing on a railroad track was contributing anything to the value of the mortgage security or furnishing any consideration which inured to the benefit of said security.

### Bonded Indebtedness

The aforesaid observer might wonder what all the tumult and shouting is about with reference to tort claims, and why bondholder interests have so persistently and consistently opposed such claims for personal injuries, particularly to employes, especially when it is recalled that the disparity between the bonded indebtedness of a railroad and its outstanding obligations for such claims is so very great; in other words, observation indicates that a railroad system, having a bonded indebtedness of $250,000,000, would ordinarily carry a judgment liability—principally for torts and especially for personal injuries—of about $250,000, or one tenth of 1 percent. Or, to put it another way, the allowance of this class of claims, which would incidentally at the same time dispose of practically all surety claims, would theoretically reduce the value of the bonds to the extent of 10 cents for each $100 bond.

With the law in this indefinite state, considerable litigation ensued, and cases are in the federal courts. While they furnish an interesting study in intellectual ingenuity, it is impracticable to classify them in this space, impossible to reconcile some of them, and quite unnecessary from the standpoint of the surety as the surety's rights are now protected by statute fully upheld by recent decisions as hereinafter shown, and these old cases in that respect are obsolete. For years some of them were cited and quoted from, on one side or the other and sometimes on both sides, in nearly every succeeding case, and they must have been as familiar in the law departments of the railroads as the insignia of the road. There is no attempt here to even list all of them. It is sufficient, viewed from the surety angle, to refer to some of them briefly.

### Priority Over Mortgage Liens

Although similar priorities had been allowed theretofore, Fosdick v. Schall (1879) 99 U. S. 235, is generally accepted as the first expressed formulation of the rule giving priority over mortgage liens to claims for labor and services, materials, supplies, and equipment necessary to the operation of a railroad within a limited time prior to receivership; in other words, the "six months" rule. The claim for railroad cars in that case was not allowed, but the question was discussed at some length and the rule stated, and this has become the leading case on the subject and probably has been cited in every subsequent case. In the same year Judge Drummond made appointment of receivers conditional on providing for accrued operating expenses. The same judge, as early as 1859, had made a similar order but with consent of bondholders in receivership of the Chicago & Alton Railroad.

In Hale v. Frost, (1879) 99 U. S. 389: A claim for supplies was allowed a preference.

In Union Tr. Co. v. Southern, (1883) 107 U. S. 591: A claim for supplies furnished within six months prior to receivership was allowed preference. This case restated or formulated the "six month's" rule and grew out of the same receivership as the Morrison case five years later.

In Lackawanna Iron & Coal Co. v. Farmer's Loan & Tr. Co., (1900) 176 U. S. 298: A claim for $450,000 worth of steel rail was not allowed, illustrating the relationship between the amount of supplies and the size of the railroad and whether supplies are used for repairs or reconstruction, also illustrating the "special equities rule."

In Southern Railway Co. v. Carnegie Steel Co., (1900) 176 U. S. 257, decided at the same time as the Lackawanna case above, a claim for over 4,000 tons of steel rail delivered about a year before receivership was allowed. The court said:

"Every railroad mortgagee, in accepting his security, impliedly agrees that the current debts made in the ordinary course of business shall be paid from the current receipts before he has any claim upon the income."

### Preference and Reimbursement

Ten years after Fosdick v. Schall, the Supreme Court decided the famous Morrison case, (1888) 125 U. S. 591. This was the first case involving a surety to be decided by that court, and it has become the leadin~ case on the subject—explained (see Spiller case) and sometimes evaded, but never reversed and still the law. Colonel Morrison, sometime Congressman and Interstate Commerce commissioner, had, at the request of a railroad corporation and, with security, executed an injunction bond to stay the collection of a judgment, which judgment he was subsequently obliged to pay. The court held that he was entitled to preference and reimbursement with interest, and, further, that the receiver should have paid the judgment. The court said the ground of the claim is that a portion of the property covered by the mortgage, being in peril of abstraction and loss, was rescued and saved to the mortgagee by the act of the surety, and that the equity of the surety was a very strong one.

In Bowen v. Hockley, 71 Fed. (2nd) 781: An award for compensation was al-

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## N. Y. Casualty Club Party Draws 1,000

J. E. Lewis, vice-president of Aetna Casualty, was elected president of the Casualty & Surety Club of New York at the annual meeting.

J. E. Lewis

First vice-president is A. L. Carr, National Surety; second vice-president, R. N. Caverty, Fidelity & Casualty, and secretary, Eugene L. Breen, Aetna Casualty.

The executive committee includes: C. S. Ashley, Jr., Maryland Casualty; R. V. Goodwin, Fireman's Fund Indemnity; W. J. Thompson, Globe Indemnity; John P. Madigan, Fidelity & Deposit, and W. H. Estwick, U. S. F. & G.

About 1,000 atended the annual Christmas party and dinner.

## Munitions Plant Cover Is Problem of the Hour

Rapid construction of explosives plants brings with it the possibility that something similar to the Associated Companies arrangement organized during the last war will have to be reestablished to take care of the demand for public liability and property damage. Explosive plants present an unusual hazard, in that even though a limit of $1,000,000 may be carried, the top $1,000 may be worth just as much premium as the last $1,000 on a $20,000 limit policy. Reinsurance contracts usualy exclude coverage on explosives plants by unofficial agreement or by the terms of the treaty.

There have been a few inquiries, but so far most of the explosives plants resulting from war orders are still under construction. Large manufacturers of explosives, such as DuPont, usually self-insure. They can afford to do this, as they have ample reserves and their units are pretty well spread around. Probably most of the plants to be built will be placed in comparatively deserted sections, so there will be little danger to life except those employed in the plants. Property damage insurance is much harder to obtain than public liability because of the heavy damage to plate glass resulting from an explosion.

The wartime Associated Companies pool was similar to the Oil Insurance Association, the cotton pool or the War Risk Reinsurance Exchange in that it provided adequate capacity by distributing the risk over a large number of carriers.

It is understood the government has told certain munitions manufacturers that if they cannot obtain insurance, the government will take care of what claims there may be.

# National Defense Creates Problems in Safety Work

## Plant Expansion and Employment of Inexperienced Men Watched Close

Compensation premiums are showing a sharp increase, reflecting the extended industrial activity accelerated by the national defense program. Although the gain in business is welcome it also brings the threat of more frequent and more serious losses.

Production expansion is causing a scarcity of skilled labor which in turn necessitates the employment of inexperienced men and those who have had their efficiency impaired by enforced idleness during the depression. In view of this situation even the most optimistic admit that compensation losses are bound to increase. Although the human element is the most important loss factor consideration also must be given the probable use of improvised and obsolete equipment to meet the heavy demands on production facilities.

### Watch Situation Closely

Compensation underwriters and safety engineers are watching the situation closely, working towards and hoping for the best. Although it is too early to get an objective picture of the situation, there are several favorable factors which may help in stemming the upward loss trend. Many plants have been operating on a share the work basis in the past with all men working shorter hours instead of retaining a few men and having them work full time. Although these plants are now working at maximum capacity they have trained man power to take care of their labor needs. With most of the larger plants on a retrospective rate basis it is expected that plant operators will cooperate to their fullest extent toward keeping industrial accidents at a minimum. Because of the intensive safety educational work in recent years manufacturers are giving more consideration to safety in their plants.

### Anticipate Unfavorable Losses

Reduced compensation rates adopted in recent years may prove to be inadequate. As rates cannot be adjusted upwards until experience justifies the change insurers may suffer during the interim. Those who are watching the situation feel that it is impossible to expect that payrolls will accelerate as fast as losses.

In advertising the threat of increased frequency, safety engineers are studying plant facilities carefully. If the plant is producing at top capacity it is apt to be crowded with materials in inconvenient places. For example, the width of the aisles through the plant must be maintained to prevent mishaps in transporting materials to and from the machines. If old equipment is used which is not as efficient as newer types there is a tendency to push it too hard. It is necessary for safety men to check safety guards and precautions in such cases.

Many plants which regularly manufacture other articles are now taking war equipment orders which means adjusting both machines and men to the new products. This has its obvious difficulties. In numerous cases safety men have been able to make helpful suggestions in this regard.

Where plants are operated in rural areas farm boys are being hired and as they are inexperienced and unaccustomed to such work it is important that they be carefully trained so that they understand every detail before they are left on their own. Safety men urge that sufficient time be given in developing these men and that they be watched and coached for a period after they start to work.

There has been some movement for establishing a government division of plant inspection with dollar a year men in charge. It is felt that insurance men should have an active voice in such a program but there is no antagonism as the sponsors are mainly the representatives of large self-insured plants. The big problem in checking adverse industrial accident trends is in dealing with the smaller plants which represent about 90 percent of the nation's industrial capacity. The larger plants have their safety engineering and educational work well organized with special men in charge. In the smaller plants difficulties arise because the small group of executives in charge usually have multiple duties so that there is a tendency to neglect safety work due to the pressure of other work. Insurance safety engineers are important factors in maintaining a low accident frequency in such plants.

# *Big Judgment Shows Need of Directors' Liability Coverage*

NEW YORK—A $1,000,000 judgment assessed in supreme court against 22 present and former directors of the Guaranty Trust Company has stimulated considerable interest in the writing of directors' liability insurance. Even before the Guaranty Trust decision there were quite a few inquiries from brokers because of attention focused on the subject at the recent midyear meeting of the insurance section of the American Management Association in Chicago.

Casualty executives here regard as significant the fact that 10 of the 22 defendants had died but that their estates were held liable. It is not the first time that an estate has been held liable in such a suit but the number of estates involved brings home forcefully the liability which a director assumes—a liability which his death does not discharge. The judgment is not the largest of its kind. For example, A. H. Wiggins made a personal settlement of some $2,000,000 to discharge his liability as an officer and director of the Chase National bank when he was its head. Most cases are settled out of court.

Casualty and surety companies have been looking over the field of directors' liability and several are seriously considering writing it. However, it would be for much lower limits than those involved in the Guaranty Trust case.

Just how widely directors' liability coverage would be bought is problematical. An official of a prominent New York bank whose directors had made some out-of court settlements said that after what the bank had been through nothing so bad would happen again, consequently it would not be worth while to buy directors' liability. While this attitude may be unduly optimistic, it is a fact that directors of all types of corporations have been shown the dangers of sitting on 50 or 100 directorates and exercising no real guidance over the corporations' affairs.

### K. C. Group Elects Dec. 27

KANSAS CITY—The Casualty & Surety Underwriters Association will hold its annual meeting Dec. 27. Bennett McCluer of McCluer-Wilbur Underwriting Co. will discuss resident agency laws and what the National Association of Casualty & Surety Agents, of whose executive committee he is a member, is doing in this respect.

## Record Volume in Drive for Moloney's 25h Year

GEORGE H. MOLONEY

George H. Moloney, vice-president Hartford Accident in charge of the western department office in Chicago, observed his 25th anniversary with the company, the event being celebrated by a new business production campaign which brought in a total of $251,011 new premiums in the period Sept. 1-Nov. 15. The drive was carried out under direction of a special committee of midwestern agents headed by Henry Pleune of Grand Rapids, Mich., and Ernest Brooks of Holland, Mich., as general chairmen. C. N. Dubach, production manager in the western department had charge of the details.

The Michigan agents originated the idea at a meeting, extending it to take in the other states of the western department with a chairman for each state. These chairman at a meeting in Chicago selected state committee members. While the campaign was conducted by the agents, the company men cooperated.

Each piece of new business was reported to the general chairmen with a "rose card" and at the windup Mr. Moloney was presented a "bouquet" of these cards. Employes of the western department gave him a ship's clock and barometer mounted on bronze and suitably inscribed, the presentation being made by J. C. Hyde, western manager.

# Leeds U. S. F. & G. Kansas City Head

O. R. Leeds, assistant agency director of United States Fidelity & Guaranty, has been appointed manager in Kansas City to succeed W. F. Moffatt, who is retiring because of his health.

Mr. Leeds started with the company in 1923 in its New York office. He was transferred to the home office in 1927 to install sales departments on a nationwide basis and in 1935 was given general charge of its sales program.

L. B. Wood, formerly assistant manager in Syracuse, has been appointed manager of the new office which U. S. F. & G. is opening in Hickox building, Cleveland. He joined the company in 1926 in Hartford, as superintendent of claims for Connecticut, and went to Syracuse in 1930.

### Alabama Pond Initiation

BIRMINGHAM—The Alabama Blue Goose at its meeting in Montgomery initiated L. E. Mitchell and Frank Blakely of the Fire Companies Adjustment Bureau of Montgomery, and Chas. Poyntz of Brame, Ward & Hancock, Montgomery general agents. A dinner and smoker followed. Claude Boykin, Bankers F. & M., Birmingham, most loyal gander, presided.

# Chicago Cost Rules Are Approved by Council

## Casualty, Surety, Fidelity Proposal Sent East for Ratification

The Chicago acquisition cost rules for casualty and fidelity and surety were ratified at a meeting of the Chicago council and will be transmitted to the acquisition cost conferences in New York for final approval. E. J. Schofield, administrator of the conferences, it is understood, plans to call the executives together immediately after Christmas holidays and it is anticipated the rules will be approved by the middle of January.

After that the governing committee of the Chicago council will meet to set the effective date, and dates for filing requests for relief and nominations of class A agents under the rules.

### Chicago Agents Conference

The Chicago Insurance Agents Association held an emergency meeting at which was read a leter from G. E. Turner, Chicago administrator, stating the council proposed to go ahead with the recommendations. The agents gave a vote of confidence to their special committee and continued it in effect.

The rules are classified as substantive and administrative. They provide for commission scales as set under the national acquisition cost rules. Representation for casualty shall be: Principal office, which may be a branch or general agency; general agents, prior to Jan. 1, 1942, not more than four; Jan. 1, 1942, to Jan. 1, 1943, not over three; subsequently, a total of two; service office, which must be registered with the council and will not count against quota; office agents, who act as solicitors and have their sole office in the branch or general agency, remunerated by commissions within the scale established, and who may be granted quarters without charge for rent, and use of telephone, and also clerical assistance and postage if that previously has been furnished; all other producers, who shall receive commissions according to the scale, but no other remuneration or expense allowance.

### Provision Included for Relief

A provision relates to relief, a company being entitled to name one general agent as of Jan. 1, 1942, and another Jan. 1, 1943, as a relief point. Relief will not be automatic for any other company in the same agency, although each may apply. No relief will be granted which would have the effect of authorizing excess remuneration. An amendment provides the section does not apply to the old 40 percent plate glass contracts, provided commission to be paid at the relief point does not exceed that percentage.

Principal office, general agencies and service office also are authorized for fidelity and surety companies, two general agencies being authorized. These must maintain an office and pay its expenses, including cost of field supervision, and receive only general agency commission. They may, however, be granted a profit-sharing agreement. They may not be housed in a company home office.

Class A agents are set up, these being required to maintain a bona fide surety department under supervision of a partner, member of the firm or salaried employe who is a whole-time surety expert,

(CONTINUED ON PAGE 18)

# CHANGES IN CASUALTY FIELD

## Coast Manager of F. & C. to Retire

Channing B. Cornell, vice-president in charge of the Pacific Coast department of Fidelity & Casualty, San Francisco, will retire after 42 years with the company. Immediately upon graduation from Cornell University, which was founded by his grandfather, Ezra Cornell, he joined Fidelity & Casualty in the clerical department. Two years later he was promoted to the claim department as investigator of liability claims and was later advanced to the position of traveling adjuster. In 1903 he went to California as claim examiner and five years later was appointed assistant resident manager at San Francisco. He was advanced to resident manager in 1914 serving in that capacity until 1930, when Fidelity & Casualty joined the America Fore group and Mr. Cornell was made a vice-president of the casualty company with supervision over the Pacific Coast Department.

Mr. Cornell is a member of the advisory committee of the Pacific Coast branch of the National Bureau of Casualty & Surety Underwriters and a member of the governing committee of the acquisition cost conference.

### Floyd Anderson Replaces Him

Floyd L. Anderson, who for the past 10 years has held the post of supervisor of claims in the Pacific Coast department, has been chosen to fill the vacancy left by the retirement of Mr. Cornell. Mr. Anderson has been connected with Fidelity & Casualty for 22 years.

He is a graduate of the Southwestern University college of law and was admitted to the bar in California in 1916. Two years later he entered the employ of Fidelity & Casualty in the claim department and until 1924 practiced law and did claim work for the company. In that year he became manager of the Los Angeles claim office and continued as such until he was appointed supervisor of claims of the Pacific Coast department. He is a member of the Casualty Attorneys Association.

### N. J. Nesheim with Fred L. Gray

MINNEAPOLIS—Norman J. Nesheim, who has just become field supervisor for the Fred L. Gray Co., Minneapolis, has a background of 20 years' experience in the insurance business. He entered the business in 1920 as special agent for Standard Fire of Hartford and continued with that company until it was taken over by Aetna Life. Then he joined Ocean Accident as special agent and when that company closed its branch in Minneapolis he went with Cullen & Crowther, general agents.

### New Claim Office in Richmond

Hartford Accident has opened a claim office in Richmond, Va., in the American building. It is in charge of Parran Belt, formerly of the Hagerstown, Md., claim office. This office will service an increasing volume of business in the Virginia territory. This is the sixth new claim office opened by the Hartford Accident during the year.

### Andre and Griffith Transferred

Gordon L Andre, field assistant casualty lines at Indianapolis for Travelers has been transferred to Minneapolis.

Clifford O. Griffith, field assistant casualty lines in Newark has changed his headquarter to Fanwood, N. J.

**T. M. Petersen,** Springfield, Mass., agent and member of the state senate, has been appointed general agent of the Fireman's Fund Indemnity for western Massachusetts.

# ACCIDENT AND HEALTH

## Ohio State's Policy Has Flat Rate, Varied Benefits

Ohio State Life's new 35th anniversary special accident and sickness policy is issued on a rather unusual basis, with a flat premium of $5 quarterly for all classes, the benefits being graded according to manual classification. It pays 12 months for accident total disability if unable to follow regular occupation; six months for confining illness beginning with first day with one-half non-confining for one month and 50 percent additional for hospital for one month, no waiting period. Air travel as a fare-paying passenger and on a regular commercial carrier is covered. The policy is renewable to age 60. The coverage provided for employed male risks, classes AA and A, is $1,000 principal and $75 monthly; B and C, $1,000 and $60; D. E and F, $500 and $40; female risks, AA, A and B, $1,000 and $50; C, D, E and F, $500 and $40.

To eliminate confusion in the agent's mind in regard to classification, separate circulars have been issued for employed men in classes AA-A, B-C, D-E-F and women, classes AA-A-B and C-D-E-F, listing at the top of each sheet the occupations to which those particular classifications apply.

### Plan Seattle in 1945 Invitation

Insurance men of Washington and Oregon are already making plans for the 1941 convention of the National Accident & Health Association in Los Angeles June 23-25 and are striving to arouse a large delegation from those states to attend. Dwight Mead, Seattle, regional vice-president, was placed at the head of the Washington-Oregon committee by F. B. Alldredge, Accidental Life, general chairman. Serving with Mr. Mead are H. O. Fishback, Jr., Northern Life, and Robert Matthews. The Seattle delegation to the convention will carry an invitation for the National association to meet in Seattle in 1945.

### Parker to Central Assurance

W. T. Parker, well known among both life and accident and health men, has been appointed assistant general manager of the Central Assurance of Columbus, O. He is a graduate of De Pauw University in 1920. After sales training work with the National Cash Register Company, he was for six years with the Aetna Life and Western & Southern Life.

His first active work in accident and health insurance was with the Great Northern Casualty of Chicago. For the past 10 years he has been with the Fidelity Health & Accident of Benton Harbor, Mich., the last few years as agency director. He is essentially a field man and is well qualified to give the greatest possible assistance to the men out on the firing line.

### Favinger Boosts Cold Canvass

DETROIT — Every accident and health salesman should make at least three cold canvass calls each day to keep his mind alert and to keep his prospect files alive, W. L. Favinger of the H. K. Schoch agency, Aetna Life, told the Detroit Accident & Health Association, speaking on "The Value of Cold Canvass."

Mr. Favinger told how he entered the business in Detroit a stranger, without a single acquaintance, beginning en-

tirely on cold canvass. This work proved so effective that he has continued for 20 years making at least three cold calls every day.

W. H. Hall, manager tax research division Detroit Board of Commerce, called atention to the great increase in Detroit's payrolls, which offers insurance men the greatest opportunity in the history of the city to promote thrift.

A bill providing for hospitalization of the indigent will be introduced in **Ohio** backed by medical associations.

# PERSONALS

**Mason B. Martin,** Cleveland local agent, has been presented a wrist watch, commemorating the 25th anniversary of his representation of Fidelity & Casualty. The presentation was made by B. C. Sauer, Cleveland resident manager, who also gave Mr. Martin a letter of congratulation from President B. M. Culver.

On Dec. 31, **C. H. Burras** will complete his 25th year as president of Joyce & Co., Chicago, and his 29th year in the service of that organization and National Surety. He was general attorney for both the company and the agency four years before taking over the duties of president.

Three other employes have completed more than 25 years of service, they being Miss Alice M. Foy, Mr. Burras' secretary, R. E. Stitt, secretary and treasurer, and A. A. Black, manager of the contract bond department.

**Thomas Fraher,** Aetna Casualty contract bond specialist, is in the Pacific Northwest on an extended business trip. Bates, Lively & Pearson are general agents in the Oregon territory.

**Ray Murphy, Jr.,** Great Neck, L. I., son of Ray Murphy, former Iowa commissioner and now assistant general manager of the Association of Casualty & Surety Executives, will play for the east team in the Shrine charity football game with the west eleven in San Francisco Jan. 1. He was named when Milt Piepul of Notre Dame was unable to make the trip. He finished his intercollegiate competition at the University of Iowa this season and was one of the standouts of the Iowa attack.

**W. J. Hartman,** 47, agency supervisor in Seattle for Indemnity of North America, ended his own life by shooting himself in his home in Seattle. He died at a hospital less than three hours later. Mr. Hartman had been ill briefly prior to his suicide.

**George Kalkman,** 43, Maryland Casualty adjuster in Los Angeles, died suddenly. He has been at the office and was stricken and died within a few hours. He had been with the Maryland Casualty 18 years, having been located at Birmingham, Ala., until three years ago.

## Principles Involved in Railroad Appeal Bonds

(CONTINUED FROM PAGE 12)

lowed preference, the court saying:

"The compensation claim arises out of the business itself. A business is more than the property which it employs. It represents all of the intangible human values which are put into it, including the labor and loyalty of the employee. . . . Uninjured laborers contribute by their labor to the operation of the business and are paid on the basis of their contribution. . . . The employe who is injured or killed has made his contribution . . . and in equity and good conscience the compensation award should be held a charge on the income of the business."

### Necessity of Payment

In Miltenberger v. Logansport, (1882) 106 U. S. 286, the court allowed preference to a claim for railroad cars and is the first "necessity of payment" authority.

In Burnham v. Bowen (1884) 111 U. S. 776, a claim for coal was allowed a preference to payment out of the proceeds of the sale of the mortgaged property. The court said:

"We do not now hold, any more than we did in Fosdick v. Schall, . . . that the income of a railroad in the hands of a receiver, for the benefit of mortgage creditors who have a lien upon it under their mortgage, can be taken away from them and used to pay the general creditors of the road. All we then decided, and all we now decide, is, that if current earnings are used for the benefit of mortgage creditors before current expenses are paid, the mortgage security is chargeable in equity with the restoration of the fund which has thus been improperly applied to their use."

Thus it would seem that more than 50 years ago, in the early days of railroad receiverships, receivers were even then using the earnings to build up the road to the ease of the bondholders, while leaving current debts and expenses unpaid.

### Deny Tort Claim Preference

The case of St. Louis Tr. Co. v. Riley, (1895) 70 Fed. 32, denying preference for tort claims in the eighth circuit, is a leading case on that subject, which stated the harsh doctrine that such a claim "lacks the indispensable element of a preferential claim," and that "it is not based upon any consideration that inures to the benefit of the mortgage security." This is the leading case in that circuit in support of the theory that claims for torts are not entitled to preference and has been frequently cited.

This was followed two years later in 1897 by Veatch v. Am. L. & Tr. Co., 79 Fed. 471, in the same circuit, in which the claims of the survivors of a fireman and engineer who, while employed by the road and in the performance of their duties, were killed in a wreck on the Union Pacific Railway caused by the negligence of the railroad, were denied, citing and approving the Riley case. The claim of a corporate surety to preference was denied in the same circuit about 20 years later in U. S. & Mex. Tr. Co. v. U. S. F. & G. Co. 34 Fed. 238. Again, in 1927, in St. Louis & San Francisco R. R. Co. v. Spiller, 274 U. S. 304, a claim for overcharges was denied by the district court, allowed by the circuit court of appeals, and allowed within the period of six months by the Supreme Court.

### Claim For Overcharge

Some years earlier, preference to a claim for overcharge had been granted in Love v. North American, 223 Fed. 103, in which it was said:

"On principle it cannot be distinguished from payments to sureties who have signed bonds to stay the execution of judgments and claims for holders of unused tickets for refund and many other like charges which are habitually allowed and have been allowed in the receivership of the Frisco Company. . . . The bondholders of the Frisco Company have no equity that is superior to that of the surety company."

And in the same receivership and under the same title preference was allowed to a suretyship claim.

### Not an Operating Expense

In 1935, in Pitcairn v. Fisher, 78 Fed. (2nd) 649, in the same circuit, a judgment for an employe's death was held not entitled to preference because not "an operating expense." By contrast, it is interesting to note the argument by the same court in favor of preference for claims for personal injuries to employes after the passage of the railroad reorganization act in 1933, in the Williams, 95 Fed. (2nd) 212, and Siratt, 95 Fed. (2nd) 217, cases. It is also interesting to note that in the Carpenter case, hereafter referred to, the last case in the eighth circuit and the last case to reach the Supreme Court, a claim for personal injuries to an employe of the Wabash in equity receivership, the claim was denied preference by the district court and also by the circuit court of appeals, apparently with the approval of the Supreme Court, but was finally allowed by the Supreme Court after the amendment of Aug. 11, 1939, making Section 77 of the federal bankruptcy act, as amended, applicable to equity receiverships, has been passed and brought to the attention of the court. Thus it would appear that even now claims for personal injuries to others than employes, in the absence of a judgment superseded by sureties, may not be allowed in that circuit. See Atchison Ry. Co. v. Osborn, 148 Fed. 608, and Veatch v. Am. Loan Co., 79 Fed. 471.

### Georgia Case of 1895

An interesting case decided about this time (1895) by the supreme court of Georgia was Green v. Coast Line, 97 Ga. 15, in which the court asserted that a judgment claim for tort is equitably entitled to a preference against income of a railroad in receivership. The court said:

"Every direct authority known to us is against us. Nevertheless we are right and these authorities are all wrong as time and further judicial study of the subject will manifest. The mistake made by the court and judges has been that they treat the problem of preferential debts as having but one pole, the affirmative pole of benefit,—ignoring the negative pole altogether."

To the same effect is Frazier v. E. T. Va. (1889) 88 Tenn. 144.

In Whitely v. Central Tr. Co. (1896) 76 Fed. 74, the claim of a corporate surety was denied because of its alleged reliance on the credit of the railroad corporation. The court undertook to distinguish the Morrison case on the ground that there was a succession of equitable circumstances in the latter case not present here. There is a similar ruling in Gay v. Hudson River Elec. Co., 182 Fed. 904.

### Denies Surety's Preference

In McCray v. Central Tr. Co., 28 Fed. (2nd) 393 (not a railroad receivership), the court, under the special facts in that case, denied the surety preference, as did the court in Equitable Tr. Co. v. Birmingham, 228 Fed. 653.

In Farmers Loan & Tr. Co. v. Northern Pac., 68 Fed. 36, under the peculiar facts in that case the court denied preference to a surety, but under the same entitled case in 71 Fed. 245 allowed such preference.

In Jones v. Central Tr. Co., 73 Fed. 568, sureties on bonds to release attachments on the company's mortgaged property were allowed a preference, and the sureties were protected in Central Tr. Co. v. Wabash R. R. Co., 80 Fed. 98.

In U. S. & Mex. Tr. Co. v. U. S. F. & G. Co. (1917), 234 Fed. 238, Judge Sanborn in the eighth circuit denied the surety preference,—a case frequently cited and relied on in opposition to the surety's claim to preference; but the same court did allow the surety's preference about the same time in the St. Louis-San Francisco Ry. receivership in Love v. North Am. Co., 223 Fed. 103, saying:

"The bondholders of the Frisco Company have no equity that is superior to that of the surety company."

**Six Months' Rule**

In St. Louis-San Francisco Railroad Co. v. Spiller, 280 Fed. 612, Judge Sanborn denied preferences for overcharges. On appeal they were allowed. 14 Fed. (2nd) 284. On final appeal the Supreme Court laid down the six months' rule with respect to preferences relating to overcharges and confined them to those made within six months. 274 U. S. 304 (1927).

In City Trust Co. v. Sedalia Light Co. (1912), 195 U. S. 845, claim of a surety was allowed a preference.

On July 1, 1914, the Interstate Commerce Commission required railroads to list injuries to person and property in the operation of the railroad as operating obligations, and when paid as operating expenses. (Sec. 20, act to regulate commerce.)

In McCullough v. Union Traction Co., 186 N. E. 300, the Indiana supreme court considered the regulations of the Interstate Commerce Commission and held that such regulations fixed the injuries to persons and loss and damage claims as operating expenses, and that as such they were entitled to preference. This case was decided early in 1933 before Section 77 of the national bankruptcy act was enacted, and the court pointed out that reserves for torts such as injury to persons and damage to property, so required by the I. C. C. to be set up as operating obligations, were a factor employed in the making of rates and, therefore, when paid should be treated as operating expenses.

**Development of Depression**

Then, with the development of the depression and the probable imminence of many more railroad receiverships, and the courts, after 50 years of effort, having failed to agree upon or determine what claims were entitled to priority and payment as operating expenses of the railroad, Congress began to legislate on the subject. In the last days of the Hoover administration (March 3, 1933), it passed Section 77 of the federal bankruptcy law, entitled "An act for reorganization of railroads engaged in interstate commerce."

Parenthetically and off the record, it may be said the nomenclature employed in this act is novel and an interesting reflection on the mental state of the time. While the statute is a part of the national bankruptcy law, it studiously avoids the use of the word "bankrupt." The proceedings are entitled not "In Bankruptcy" as usual, but "In Proceedings for the reorganization of a Railroad." The railroad seeking the protection of the statute is called not the "bankrupt" but the "debtor." It is not necessary for the railroad to allege or show bankruptcy; it has but to state that the railroad corporation (which, incidentally, retains its corporate existence) is insolvent or unable to meet its debts as they mature and that it desires to effect a plan of reorganization. The custodians appointed to take charge of the property are called not "receivers" but "trustees."

**Before Supreme Court**

This entire statute came before the Supreme Court in Continental Ill. Nat. Bank & Trust Co. v. Chicago, Rock Island & Pacific Railway Co., 294 U. S. 648, where it was upheld with a full review of its aims and purposes.

While there is a provision therein for the classification of claims, the framers of this act made no attempt to accurately define or describe "preferred claims." Perhaps, confronted with the conflicting decisions we have seen they could not. They contented themselves with providing that:

"For all purposes of this action, claims against a railroad corporation which would have been entitled to priority over existing mortgages, if a receiver in equity of the property of the debtor had been appointed by a federal court at the date of the filing of the petition hereunder, shall be entitled to such priority and holders of such claims shall be treated as a separate class of creditors."

## Interesting Decision in a London Lloyds Case Involving a Dancer

The United States circuit court of appeals for the seventh circuit in Fisher vs. Lloyds of London had an interesting case before it. The policy provided that it would pay to the insured $200 a day during a stated period in the event that the holder was prevented by bodily injury from fulfilling her engagements as a classical dancer while on tour in the southern part of the United States. It further provided that no payments were to be made for the first two days of disability.

The insured instituted suit alleging that she was prevented by bodily injury from filling such engagements for 16 days. London Lloyds filed interrogatories intended to elicit from her information regarding her engagements during the period in question, which interrogatories the plaintiff refused to answer. An order was then entered with plaintiff's consent barring her from introducing any evidence relative to such engagements.

It was established that arrangements for the insurance were made by telephone between the plaintiff's agent and an insurance agent. The plaintiff claimed that nothing was said in regard to the two-day provision or with regard to contracts of employment during the time of disability and that these two provisions should not have been inserted in the contract. Previous contracts between plaintiff and defendant had contained similar provisions. In determining the contract between the parties the higher court held that the written contract controlled, the oral discussions between the agents of both parties having become merged in the written agreement. Since the contract followed the usual form previously used by the parties, the plaintiff cannot object to the inclusion of the two clauses mentioned.

The court further held that this type of contract is a special kind of policy covering a particular period during which the insured was to make several appearances as a classical dancer. The insurance provided was against her inability to make those appearances and fulfill her contracts. Since the order prevented her from introducing any evidence relative to such engagements, judgment was entered in favor of London Lloyds.

### Industrial Index Well Ahead

Continuing the rapid acceleration which marked October, business activity moved steadily higher in November, according to the index of industrial activity maintained by Lumbermen's Mutual Casualty. The nationwide index was 7 percent above the high mark of the previous month and 27 percent higher than November, 1939.

The Pacific Coast had an increase of 12 percent over October, Atlantic Coast 8 percent and middle west 3 percent. The Atlantic seaboard had an increase of 41 percent over November, 1939, middle west 14 percent and the Pacific Coast 8 percent.

### Arnold L. M. C. Official

John A. Arnold, vice-president of Federal Mutual Fire, has been elected a secretary of Lumbermens Mutual Casualty. The two companies are affiliated. Mr. Arnold has been with Federal Mutual since 1932.

# COMPENSATION

## Michigan Changes Are Recommended

LANSING, MICH.—The 1941 Michigan legislature is to receive from J. F. Shepherd, chairman state department of labor and industry, a recommendation that the workmen's compensation laws be amended to provide compensation for life in case of total disability.

Mr. Shepherd, who in all probability will be replaced under the incoming administration of Governor-elect VanWagoner, revealed that he is preparing a report on the basis of his experience. It is anticipated that Mr. Shepherd's advice may carry considerable weight with the legislature since it will be predominantly Republican. Mr. Shepherd said he is convinced that the present limitation of 500 weeks on total disability compensation is unjust.

Mr. Shepherd will also advocate a revision of the occupational disease law. He believes the present schedule act, providing compensation for only a select list of 31 diseases, is inadequate and unfair. He believes the compensation commission should have the power to determine when a disabling ailment arises out of and in the course of employment and is hence compensable.

Mr. Shepherd favors the establishment of a state fund to which would be paid awards of employes who suffer compensable accidents but die without dependents. This fund could be used to supplement compensation payments which, while representing the legal liability of the employer, are inadequate and unjust in specific cases.

David Martin, Flint agent, is rumored as Mr. Shepherd's successor.

### Makes Survey for O. D. Measure

SALT LAKE CITY—A survey made by the Utah State Board of Health, in collaboration with the state industrial commission and the U. S. Public Health Service will be used in drafting an occupational disease bill for consideration by the legislature when it meets Jan. 6. Silicosis is found to be the principal occupational disease among Utah coal miners, metal miners and smelter workers. Lead poisoning comes next, with arsenic poisoning a close third.

# COMPANIES

## Service Mutual Liability Is Being Reinsured

Arrangements have just about been completed for Service Mutual Liability of Boston to cease doing business as at Jan. 1, and for its entire business to be reinsured by Employers Mutual Liability of Wausau, Wis. The Massachusetts commissioner has given his approval and all that remains is formal ratification by policyholders of Service Mutual at a meeting to be held Dec. 27.

Service Mutual Liability as of Dec. 31, 1939, reported assets of $266,315, premium reserve $10,093, loss reserve $250,392, surplus to policyholders $755. Net premiums written were $367,361, losses paid $359,665, expenses $57,237. H. B. Church is the president.

Service Mutual was organized in 1926 principally to take care of the risks of a large Boston trucking concern. Some 700 motor vehicle owners, mostly truckmen, placed their compulsory automobile liability insurance with the company, and it also wrote some $120,000 in workmen's compensation coverage during the past year.

### Anchor Casualty Stock Dividend

ST. PAUL—At a special meeting of directors of the Anchor Casualty, a 33⅓ percent stock dividend was declared, increasing the number of shares from 3,000 to 4,000. With par at $100, this makes the Anchor capital now $400,000. The board announced that assets have passed the $3,000,000 mark and that there is now a surplus of $400,000 in addition to a $100,000 contingency reserve.

The directors voted a bonus of a month's salary to employes.

### Release Securities on Deposit

The Western & Southern Indemnity, which is being liquidated, has been authorized by the Ohio division of insurance to withdraw $250,000 of the $300,000 of securities which it has on deposit. The remaining will be held to cover obligations of $15,276 protected by the Ohio deposit.

### New Denver A. & H. Mutual

The Great Eastern Mutual of Denver, a new mutual legal reserve health and accident company, has been licensed by the Colorado department. Officers are: Dr. Paul J. Connor, president; Dwight E. Bone, first vice-president; V. L. Tickner, unsuccessful applicant for the position of insurance commissioner, second vie-president and secretary; E. D. Gothman and B. D. Sneddon, assistant secretaries.

## Automobile Travel Hits All-Time Peak

HARTFORD—Automobile travel in the United States as measured in terms of motor vehicle registration and gasoline consumption will hit its all-time peak in 1940, Travelers announces. Both figures exceed those for the best previous year, 1939, by a considerable margin.

Total registrations of motor vehicles this year are estimated at 32,489,000 and gasoline consumption at 22,611,300,000 gallons. This is an increase of a million and a half cars on the roads and more than a billion and a quarter additional gallons of gasoline burned.

Registrations of all motor vehicles increased 4.77 per cent; the increase in commercial vehicles is 5.39 per cent. Gasoline consumption increased even more, the 1940 estimate showing a rise of 5.94 per cent from last year's figures.

These estimates help to explain the 1940 rise in fatal traffic accidents, the company's statisticians said. Provisional reports show an increase of 5.39 percent in fatalities so far this year and the figure is not likely to change greatly in the remaining weeks. Thus it is seen that accidents have followed the increased mileage in almost exact ratio.

Iowa enjoyed the greatest increase in registrations, 8.16 per cent, while Idaho led all other states in percentage increase in gas consumption. By geographical territories the Pacific states had the greatest increase in registrations and the mountain states led other sections in their increased use of gasoline.

### Taxis Must Carry Liability Cover

NASHVILLE—A city ordinance requiring taxicab operators either to file a bond for $10,000 with the city auditor or to carry insurance to protect those who ride in their cabs has been held constitutional by Judge Luck in a case pending more than two years. The constitutionality of the ordinance was attacked on the ground that it was unreasonable and arbitrary because few insurance companies will underwrite such a risk. Judge Lusk cited a number of supreme court decisions on the same issue in support of his decision. An appeal to the state supreme court is considered probable.

### American Surety Christmas Party

NEW YORK—In keeping with a custom of 22 years, officers and employes of the head office and metropolitan branch of American Surety and New York Casualty held their Christmas party at the main office. A turkey dinner was served, followed by dancing and bridge.

## Assigned Auto Risk Plan Considered in Washington

SEATTLE, WASH.—Approximately 3,800 drivers who have been unable to regain their licenses under the state's financial responsibility law will be given a chance to qualify early next year under an asigned risk plan being worked out by the insurance companies and state officials.

Of the 4,675 licenses which have been suspended or revoked in the state, only 862 drivers have been able to get personal liability and property damage insurance required by the law before the director of the licenses may restore the license, which may have been suspended for only 30 or 60 days.

The law provides that when a driving license is suspended for some infraction of the law, it shall not be returned to the licensee until he has filed a certificate of insurance or its equivalent.

Many drivers, filing the necessary affidavit that they have not driven during the period of their suspension, find that no insurance company is willing to take the risk of covering them, especially if the traffic offense for which they lost their license involved driving while under the influence of liquor.

Under the plan all companies writing casualty insurance in the state will participate and risks will be assigned in proportion to business written. The policy will be written at an advance rate, still to be decided.

**VA. PLAN GETS FINAL TOUCHES**

RICHMOND—An assigned risk plan for furnishing bodily injury and property damage coverage to car owners in Virginia who have heretofore been unable to get it, due to their inability to meet requirements of the law, has been worked out by G. A. Peery, statistician of the Virginia department. Final touches were put on the plan at a conference in New York last week between Mr. Peery and representatives of burau and non-bureau companies, both stock and mutual. Previously, a similar conference was held in Richmond.

Certain companies, under the plan, will take assigned risks as they are recommended by the Virginia department, the business to be written through Virginia agents of the respective companies. Responsibility of determining whether they are qualified to get coverage will rest with the department and the Virginia automobile rating bureau, under the new assigned risk plan. Application will first be made to the bureau for the coverage. It is expected that the plan will be put into operation early in the new year.

## Farewell Dinner for Blue

NEW YORK—B. G. D. Blue, who Jan. 1 will become manager of the eastern department of Central Surety to be opened here, was honored by his associates of Royal Indemnity, which he has been manager of the metropolitan bonding department since 1927, with a dinner. J. F. O'Laughlin, vice-president of Royal Indemnity, served as toastmaster. Speakers included David Schenck of the company, and Moses Craig, vice-president of Globe Indemnity. Blue was presented a handsome desk set.



## Aviation Syndicate Adds New Casualty Members

NEW YORK—American Surety and Massachusetts Bonding will become members of the United States Aircraft Insurance Group. New York Casualty and United States Casualty will become associate companies.

The group now consists of 16 fire companies members and 25 associate fire companies; 10 casualty company members and two associate casualty companies.

**FALVEY ANNOUNCES AFFILIATION**

BOSTON—T. J. Falvey, president Massachusetts Bonding, announced the company Jan. 1 would become a member of the United States Aircraft Insurance Group. This action, he said, was taken because of "the increasing importance of aviation and our belief in the future of aviation insurance." Facilities for writing all lines of aviation will be available.

## Debenture Firm Decision

In National Union Mortgage Corporation vs. Potomac Consolidated Debenture Corporation, et al., involving a large volume of debentures guaranteed as to interest, but not as to principal, by Maryland Casualty, the Maryland court of appeals, the court of last resort as to the question involved, has held that large amounts of cash accumulated in the debenture corporation through liquidation of their original assets should be used to purchase debentures at the best price obtainable, even though such price were in excess of the liquidating value of the debentures. This cash has been producing no income, so that Maryland was obliged to meet the interest payments. The funds already accumulated will permit the retirement of a very large amount of debentures, thus relieving Maryland of its interest obligations.

## Has New Commercial Manual

The accident and health department of Union Mutual Life has put out a new commercial manual, effective Dec. 27, which includes improved classifications for a number of occupations.

The **Insurance Womens Club of Oklahoma City** held its annual Christmas party with a banquet.

# Chicago Cost Rules Are Approved

(CONTINUED FROM PAGE 13)

and shall satisfy the council's governing committee as to their ability to produce and properly service a substantial volume of fidelity and surety. No general agent designated after the date to be fixed shall be named a Class A agent, nor shall any designated Class A be granted or permitted to hold a general agency franchise while he is a Class A. Any agent who qualifies may apply for Class A designation, with right of appeal to the council if declined. He may receive general agency commission scale. Each will be re-qualified each six months. Such designation does not create a vested interest under the rules. Class A agents must maintain their own separate offices.

### Court Agents Classification

Court agents are another class set up, one in Cook county to each company, and each may receive general agency commission for court business only.

There are also office agents, the same as under casualty rules, and all other producers.

Relief measures are included similar to those for casualty.

Under the administrative rules it is stipulated that if an appeal for relief is denied by both governing committee and council the member shall conform to the rules within 90 days. The governing committee shall have power to authorize special appointments in excess of quota limits, if the agency involved shall have been continuously in business for at least a year, if at the time or within the past year it or a member was not in violation of the council's rules. Application for such appointments must be made in writing. Any such appointments shall have the status of relief.

Members are to be required to file with the council chairman lists of all excess remuneration appointments, with data on the exact remuneration paid exclusive of profit sharing contracts. This does not apply to principal offices.

## Has New Mortgagee's Bond

ST. PAUL—St. Paul-Mercury Indemnity is bringing out a new mortgagee's bond covering foreclosure expenses, unpaid interest and waste repairs in connection with FHA insured mortgages.

The bond covers necessary expenses (including reasonable attorney fees) incurred by the holder incident to the acquisition of the property by foreclosure and other means. Unpaid interest which shall have accrued during the 90 days immediately following the uncured default on the part of the mortgagor is covered and also repairs to remedy waste which shall have been made by the holder after uncured default on the part of the mortgagor.

### Reception for Roy Davis

Dozens of insurance people visited the new headquarters of the Association of Casualty & Surety Executives at 1230, 10 South La Salle street, Monday afternoon, when open house was held. Roy L. Davis, the new manager, had as hostess, Mrs. Davis. C. W. Fairchild, general manager, attended from New York. Refreshments were served.

## REJECTED RISKS

Chief McCall was sitting in his office smoking a cigar and thinking how he would like a new fire station to better serve the southeast part of Wichita, when his telephone rang. The chief answered. A feminine voice on the other end of the line asked, "Say, chief, do you know of any good fire sales?"

Two Oswego, Kan., firemen responded with the fire truck to an alarm in the country. On the return to town the truck hit a dip in the road and the end of the hose fell to the ground. This started the load to lay out unnoticed until the bed was entirely emptied and all of the hose was stretched along the highway.

# Effect of British Successes on War Risk Outlook

NEW YORK—British naval and military successes in the Mediterranean area should improve the war risk situation all over the world, according to marine underwriters in this country. With the Mediterranean situation under control the British navy can be released for much-needed convoy work.

Lack of available naval vessels for convoys has been largely responsible for the damage which German surface raiders have been able to inflict on British merchantmen. Despite their heroic efforts armed merchantment like the "Jervis Bay" are no match for German pocket battleships.

Underwriters here recently reduced rates to and from the Mediterranean, including them now in the published rate schedule whereas since the entrance of Italy into the war rates had been quoted only on application. Underwriters are now taking on open cover policies, amounts up to $500,000 per shipment on any one vessel on shipments to and from Greece, Turkey, Egypt, Syria, Palestine and Black Sea ports, except Russian ports where shipments are via Suez.

### Outlines Detroit Safety Drive

F. C. Esper, A. H. Rohde agency, vice-president of the association and chairman of its new safety campaign committee, told the Detroit Association of Insurance Agents at the December meeting of the safety engineering work that is being done in the city now by various organizations and the police department, and showed how insurance agents can play a prominent part in bringing about results in accident prevention. Mr Esper and his committee will plan the campaign and present plans to a later meeting for approval.

## No Blue Goose Grand Nest Dues for Men in Service

MILWAUKEE—Members of the Blue Goose who have been or are called into military or naval service will be relieved of payment of grand nest dues. Grand Wielder R. A. Kenzel announced here that the grand nest officers have agree not to assess the per capita charge on such members until their return from service. A similar provision has been in effect in Canada since that country has been at war.

### Minneapolis Fire Loss $950,000

MINNEAPOLIS — Preliminary figures compiled by the Minneapolis fire prevention bureau indicate that total losses in the city in 1940 will be around $950,000 unless there is a heavy loss in the few days remaining. This will compare with a loss of $680,063 in 1939; $1,475,623 in 1938; $1,274,405 in 1937, and $783,556 in 1938. Several costly fires in January this year and one large one in May account for the increase this year over last.

### Form New Quebec Company

The National Insurance Society has been licensed in Quebec to write fire and casualty. Capitalization is $500,000, with $90,000. Head office is at 41 St. James street, west, Montreal.

The new company was formed by Societe Nationale de Fiducie, a trust company. J. V. Desaulniers, managing director of the trust company, is president and managing director of the new company. Charles Laurendeau is vice-president and Henri Quimet, secretary-treasurer.

### Big Wine Cellar Loss

Fire in the wine storage cellar of the Alta Winery near Dinuba, Cal., caused loss now estimated at about $117,000. It is one of the few losses that has ever been suffered on wine storage cellars in the state. The building loss is estimated at $20,000, and the loss on 417,980 gallons of wine is estimated at about $97,000. Pearl had the building and Royal and Pacific National had the wine under a nationwide I.U.B. policy for the Lawrence Warehouse Company.

### Ala. Steering Group to Meet

BIRMINGHAM—The executive committee of the Alabama Association of Insurance Agents, headed by R. T. S. Johnson of Florence, will hold its annual meeting Jan. 10 in Birmingham. President Charles Morris of Tuscaloosa and Secretary Ed H. Moore of Birmingham will attend. Plans for the state convention to be held next May will be discussed and there may be some action on the employment of a full-time executive secretary as authorized at the last convention.

### H. L. Bolen Called to Colors

Lieutenant Colonel Harry L. Bolen of the Dever-Bolen agency, Cairo, Ill., expects to begin Jan. 3, a year's training with the National Guard at Camp Peay, Tullahoma, Tenn. Colonel Bolen now commands the 34rd Battalion of the 130th Infantry, 33rd Division, Illinois National Guard, having originally joined that unit on his return from service in World War I.

About 100 attended the Christmas dinner party of the **Insurance Women of New Jersey in Newark**. President Ada V. Doyle of Caldwell presided and gave a Christmas message. The members sang Christmas carols led by Marion Heim, Feist & Feist, Newark. There was a pantomime and a "quiz."

The next meeting will be held Jan. 16 in Newark.



## National Association Emblems Are Standardized

The National Association of Insurance Agents is standardizing its membership emblem in four sizes, electrotypes of which are available for printing purposes to member agencies. The newly standardized design supplants the confusing and conflicting insignia that have been in use during the past 25 years.

No. 1

The smallest size, No. 1, is designed for printing on business calling cards, pamphlets, folders and advertising literature of small proportions, and on other small items.

No. 2

The No. 2 size can best be used on advertising material, envelopes, invoices and statements, and on letterheads the layout of which requires a smaller design than usual. This size cut is excellent, also, for printing on the reverse side of business calling cards.

No. 3

The No. 3 size is the most popular of the family, and is used by member agencies mainly on letterheads. This size also is adequate for small newspaper advertisements, desk or small wall calendars, hand blotters, and for advertising matter of letter-enclosure proportions.

No. 4

The largest cut, No. 4, is designed for large newspaper advertisements, programs, desk blotters, wall calendars, window cards, and for any other purpose where easy visibility at more than arm's length distance is desired.

The electrotypes cost 50 cents each or a set of four for $1.50.

## Small Town Agents Fear New CCC Cotton Program

BIRMINGHAM—Although no action is planned at present by the Southern Agents' Conference or by state associations, fire and casualty agents in the south are vitally concerned in the plan of the Commodity Credit Corporation to call for new bids for storage of some 6,347,000 bales of cotton held in warehouses as security for government loans.

It was largely the complaints of the agents and warehousemen as reflected through members of Congress that the CCC recently agreed to defer calling for bids from Dec. 3 to early in February. This will give Congress time to consider the matter in February.

This cotton is now largely held in small warehouses throughout the south and fire insurance is carried largely by agents in the small towns. They fear that if contracts for storage are let on a competitive basis, large port warehouses will underbid these inland warehouses, and they will consequently lose the insurance. Because of curtailed cotton exports these large port warehouses, whether in New Orleans, Charleston or elsewhere, are largely empty. They are mostly owned by large interests and whether insurance coverage on them would go to local agents in those ports or to brokers in the east is not known. Local agents in the small towns want Congress to enact a law that the cotton must be stored in the vicinity where grown. By the end of this year the government expects to hold another 6,000,000 bales of cotton as collateral. The premiums on this volume of business is considerable.

## National Board Engineers in Surveys of Many Cities

NEW YORK—Having completed surveys of the fire and water protection facilities of Madison, Wis., Lowell, Mass., and Erie, Pa., engineers of the National Board are now studying fire hazard conditions and the facilities for overcoming them in Knoxville, Tenn., Colorado Springs and Honolulu. Recently the board made public the result of the survey of Atlantic City, their recommendations in part being that "the general efficiency of dependability and effectiveness of the fire department be improved by providing progressive leadership and more reliable supervision and management of its affairs; that the building laws be revised and amended to conform to modern requirements for construction and fire safety; that the high pressure water mains be extended, and that sufficient hydrants be installed so that there will be one hydrant to each 40,000 square feet of area service. As to the conflagration hazard, the engineers recommend "that owners of existing defectively constructed buildings, which are so located as to form conflagration areas, be required to suitably protect floors, party walls and exposed window openings; that automatic sprinkler equipments with outside siamese hose connections and controlling valve near main in street be required in all buildings, which, by reason of their size, construction or occupancy, singly or combined, might act as conflagration breeders."

### Beach Mentioned in Illinois

One of those included in the lengthening list of possibilities for new Illinois insurance director is Rufus Dawes Beach of the Chicago law firm of Ashcraft & Ashcraft, who is a nephew of Col. C. G. Dawes.

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# INSURANCE NEWS BY SECTIONS

## MIDDLE WESTERN STATES

### Cleveland Board Protects Business of Draftees

CLEVELAND—The Insurance Board of Cleveland unanimously adopted a resolution to conserve the business of its members who may be called in the draft. The resolution sets forth this is a "moral and patriotic duty" to recognize and protect the rights of members and associates who are called to military and naval service. The resolution pledges members to renew business of such members or associates for their benefit during their term of service, and to assist in every way in conserving such business for the agencies or solicitors designated to care for it; to report any switching of such business to the trustees, who are authorized to investigate, compel restitution and impose penalties where it is found illegitimate and unjustifiable. A "roll of honor" will be established and maintained by the board on which will appear the names of members and associates called to service.

J. L. Young, secretary Cleveland Automobile Club, was the speaker at the last meeting. The Cleveland Board was one of the sponsors in connection with the recent 40th anniversary celebration of the club.

### Rural Agents Problems in Minnesota Agents Program

ST. PAUL—Rural insurance problems, with emphasis on production possibilities, will have an important place in the program of the mid-year educational conference of the Minnesota Association of Insurance Agents, to be held in the St. Paul hotel, March 5-6.

B. R. Walinder, Chicago, manager farm and hail department America Fore group, will speak on farm insurance possibilities and the improved coverages available in that field. He also will take part in a rural agents breakfast conference. G. E. Rolien, Milaca, is chairman of the rural agents committee.

The St. Paul Fire & Marine will sponsor one of the luncheons. Roy Mitchell, South St. Paul, and William Dahl, Minneapolis, have been appointed a publicity committee.

The legislative committee will meet here Jan. 9. District chairmen will be brought in to get a line-up on the legislative situation. The next day a meeting of the executive committee will be held.

### Stock-Mutual School Debate

MINNEAPOLIS—Nearly 150 insurance men of the Twin Cities listened in on a debate before the Minneapolis school board on the merits of capital stock vs. mutual insurance. The debate grew out of recent hearings before the board on school insurance, which is now divided 75 percent to stock companies and 25 percent to mutuals. About $17,000,000 coverage is involved.

The stock companies were represented by R. A. Thompson, president of Minneapolis Underwriters Association, and Dean Perry, state agent Fire Association. E. D. Coventry of the Hardware Mutual of Minneapolis spoke for the mutuals. Members of the school board asked several questions to clear up points they did not understand.

### Steinmetz Opens Own Office

A. A. Steinmetz, former manager of Western Adjustment at Salina, Kan., has opened an independent adjusting office there at 109 East Iron avenue. He has been in the adjusting business 21 years and has been at Salina 15 years.

### Wichita Agents Party Draws Many Kansas Notables

WICHITA—About 300 guests, including city, county, government, school and Wichita University officials, in addition to office employes and friends attended the annual Christmas party of the Wichita Association of Insurance Agents. President Victor G. Henry presided. A. E. Smoll was general chairman.

Among the insurance guests were a number of officers of the Kansas Association of Insurance Agents, including Wade Patton of Hutchinson, secretary-treasurer; W. T. Newkirk, Independence, and N. N. Kline, Hutchinson, members of the executive committee; Alex Case, Marion, Kansas national councillor; Don Ellis of Kansas City and Miss Dorothy Patton of Hutchinson; Rosse Case of Marion and Col. Sam F. Woolard, honorary life members of the Kansas association; William Elem, secretary Central States Fire; R. B. Latham, North America state agent; G. M. Montgomery, manager Western Adjustment; William Moore, Central Kansas Adjustment, executive secretary National Association Independent Insurance Adjusters; C. C. Crow, Underwriters Adjusting, and Hughes Cunningham, Sheffer-Cunningham.

Tom Collins, assistant to the publisher of the Kansas City "Journal," was the speaker.

### Live Topics Up in Hutchinson

HUTCHINSON, KAN.—Wade Patton was program chairman for the Hutchinson Association of Insurance Agents in December. Discussions covered the functions of the state and National associations, the wage and hour law and the new HOLC setup, which had been given attention by the executive committee of the state association at its meeting in Topeka.

### Weibling Youngstown President

M. M. Weibling has been elected president of the Youngstown Association of Insurance Agents. Ralph M. Wilkoff is vice-president and Roy E. Linville, retiring president, was elected a director. Special recognition was given to Frank B. Medbury, who has been in the business 50 years. Testimonial speeches for Mr. Medbury were made by Superintendent Lloyd of Ohio and by Ralph P. Smith.

### Want Iowa Liquor Insured

DES MOINES—The Iowa liquor control commission has recommended to a special legislative committee that a bill be introduced in the Iowa legislature next month to permit carrying fire insurance on its stock of liquor stored in state owned stores and warehouses over the state.

The legislature at previous sessions has refused to allow payment of insurance premiums on the theory that the state should carry its own insurance. The commission, however, has advocated outside insurance should be carried.

### Oppose Sprinklers for Apartments

MINNEAPOLIS—Large owners of multi-dwelling properties in Minneapolis are vigorously combating an attempt to pass an ordinance requiring such buildings to install sprinkler systems. The ordinance, which stems in part from the disastrous Marlborough apartment fire last January and others that followed, has the active support of the fire department. In a talk before the Commonwealth Club, C. B. Beery, who is active in opposition to the ordinance, declared its passage would result in razing many apartment houses.

### NEWS BRIEFS

**Ethel A. Colman**, Duluth, Minn., local agent, who is secretary-treasurer of the Duluth Underwriters Association, has been elected treasurer of the Duluth Realty Board.

**Frank S. Rogers**, St. Paul general agent, was host at a large Christmas party.

**Don Miller**, who has been a member of the Cobb-Strecker-Miller Co., Minneapolis local agency, has withdrawn from that firm and has established his own agency under the name of the Don Miller Co., with offices at 1462 Northwestern Bank building.

**J. Atwood Morrison** of the Long-Coffin Agency, Hutchinson, Kan., has been called to Fort Snelling, Minn., for one year military service as a first lieutenant.

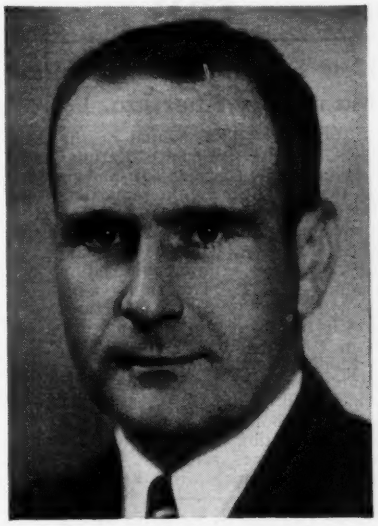
The C. V. Carr agency, **Conneaut, O.**, has been sold to D. B. Frayer and E. D. Frayer of Jefferson. J. H. Davis, a son-in-law of Mr. Carr, will move from Jefferson to Conneaut to manage the agency.

Because of ill health, **James Morrow**, for 20 years president of the Richland Equity Mutual, Shelby, O., has resigned.

## IN THE SOUTHERN STATES

### Louisville Men Honored by Former Associates

LOUISVILLE—The Louisville Board honored M. W. Boedeker, who was its president in 1937 and 1938 and was a member of the executive committee of the National Association of Insurance Agents until he left the agency ranks last October to join Royal Exchange in the field. It had been impossible for Mr. Boedeker to be in the city at the time of a meeting of the board, so the ceremony was deferred until last Saturday. W. C. Vaughan, president of the board; A. G. Harrison, vice-president, and P. B. Bethel, secretary, presented Mr. Boedeker a traveling bag.



M. W. BOEDEKER

### Recording Agents in Texas Must Write Own Policies

The Dallas Insurance Agents Association has received from Girard Kinney, supervisor of agents' licenses of the Texas department, a statement that the legislative intent is that anyone who does not perform the acts of writing, signing, executing and delivering policies, who does not maintain an office and a record of his business, is not entitled to a recording agent's license. Occasionally, the department has given verbal approval to an arrangement whereby the insurer could write the policies for a week or so until the special agent had time to educate the local agent in his duties. However, this was always agreed to be a temporary situation. It may be, he states, that some of the special agents or companies have taken advantage of the agreement and allowed agents "to continue in the neglect of their duties." The Dallas association wrote to Mr. Kinney on the subject because it found that some companies are failing to require every agent to write his own policies, maintain an office, etc.

### Louisville Educational Series Makes Big Hit

LOUISVILLE—The Louisville Board closed its first educational series Friday night with a talk by James C. O'Connor, Chicago, editor of the "Fire, Casualty and Surety Bulletins" of THE NATIONAL UNDERWRITER. Mr. O'Connor spoke on the need for trained and intelligent persons in all phases of agency ranks, saying that the buyers of insurance and no one else will decide whether agency service is worth the cost and hence that agents and their employes can secure their own futures by making their services worth while and emphasizing these services to the public. He said that in his opinion more business has been lost to direct writers through poor agency service than through dividends. Mr. O'Connor also emphasized that the discussions of organized buyers of insurance show clearly that informed assured have no disposition to dispense with the services of agents, but they are questioning the cost and they want value received.

The series of nine lectures was exceptionally well received. There was an average attendance of about 150 agents and their employes and probably 100 men and women attended every session. Sentiment was unanimous for another series, the time and scope to be determined by the committee. A. G. Harrison, vice-president of the board, was chairman of the educational committee and tribute was paid to his efforts at the final session.

### Texas Casualty-Surety Schools to Be Jan. 20-21

The annual one-day casualty and surety meetings of the Texas Association of Insurance Agents, which have proved so popular, will be held in Dallas Jan. 20 and Houston Jan. 21. The entire program will be moved from Dallas to Houston. The meetings will be sponsored by the casualty and surety committee of the Texas association, composed of Chairman A. H. Bevan, Houston; Melvin Miller, Ft. Worth; and R. W. Thompson, Dallas.

The program will include greetings from Ben A. Calhoun, president Texas association, and J. W. Teagarden, chairman companies committee; an address by Reuben Williams, Texas casualty commissioner; "The Foreground and Background of the Claim Picture," W. C. Jainsen, vice-president Hartford Accident; questions and general discussions: "Comprehensive Liability Coverage," E. B. Gill, assistant secretary, Glens Falls Indemnity; questions and general discussion on comprehensive

liability coverage; "Steam Boiler Insurance," T. B. McMath, assistant manager boiler department, Maryland Casualty; questions and general discussion on steam boiler insurance; "Judicial Bonds," J. D. Williams, superintendent, judicial department, U. S. F. & G.; questions and general discussion on judicial bonds; "Automobile Liability and Property Damage," M. T. Hill, Dallas; questions and general discussion on automobile liability and property damage; a quiz program on casualty and surety lines will be held with cash prizes for correct answers. D. G. Foreman, secretary Texas association, assisted by members of the casualty and surety committee, will conduct this feature.

## Altgelt Named President of San Antonio Exchange

Officers of the San Antonio (Texas) Insurance Exchange elected at the annual meeting are: W. W. Altgelt, Sanger & Altgelt, president; W. S. Grothaus, Grothaus Company, vice-president; F. F. Ludolph, Ludolph & Co., secretary-treasurer; directors, for two year term, E. B. Ramsdell, Johnston-Ramsdell Company, and S. C. Timpson, Jr., S. C. Timpson & Son; holdover, L. B. Joyce, Sr., Coleman & Co., and W. G. Lutz.

A brief review of the law as affecting the license of an agent who does not write his own policies was given, and it was noted that the license of such an agent recently was canceled by the Texas department. It was pointed out there is no law to prevent radio advertising in Texas of an insurance company which is not entered in Texas. Problems affecting the securing of an agents qualification law were discussed.

W. E. Fitch, retiring president, expressed appreciation for cooperation of officers and members.

### Atlanta Educational Courses

The 1941 lecture program for insurance students has now been published by the Insurance Library Association of Atlanta. The meetings are held 5:30 to 6:30 p. m. with inland marine Monday, general principles of insurance and suretyship Tuesday, casualty II Thursday and fire II Friday.

The introductory speakers for the various courses are Russell W. Michael, Fireman's Fund, general principles of insurance and suretyship; H. D. Cutter, Jr., Southeastern Underwriters Association, fire II; J. A. Bartlett, U. S. F. & G., casualty II; and Otis Jenkins, Marine Office of America, inland marine.

### Tenn. Public Relations Group

NASHVILLE, TENN.—R. T. Cawthon, secretary, reported the following as a public relations or B. D. committee of the Tennessee Association of Insurance Agents: L. C. Cox, Knoxville; W. M. Streuli, Memphis; and N. L. Manning, Murfreesboro. This committee will cooperate with a similar committee recently appointed by the Tennessee Field Club in promoting the interests of stock insurance throughout the state.

### Commissioner Bans Fireworks

NASHVILLE, TENN. — Fireworks for the Christmas holidays were virtually banned in Tennessee by issuance of regulations by Commissioner McCormack which are being enforced by state fire marshals. Deputy State Fire Marshal E. B. Hanson warned that the promiscuous sale of Christmas fireworks gives the saboteur an easy method of obtaining quantities of explosive material at a time when guards are being thrown around regular powder plants to prevent that very thing. Regulations are being enforced by the state highway patrol.

### Nashville Women's Group Elects

NASHVILLE, TENN.—The Nashville Association of Insurance Women at its annual meeting elected: President, Miss Edna Mai Gay, Fort Mortgage Company; vice-president, Mrs. W. L. Lafevor, Dobson-Bainbridge Co.; and secretary, Miss Margaret Buckingham, Tennessee association. Mrs. Howard Robinson and Mrs. A. L. Tate, retiring president and vice-president, respectively, were elected members of the executive committee. The Nashville association will entertain the National Association of Insurance Women June 22-24.

### La. Fire Marshal Reorganization

NEW ORLEANS—Under the reorganization of the state fire marshal's office, which now becomes a division in the public safety department, and removal of headquarters from New Orleans to Baton Rouge, seven deputies in New Orleans have been dismissed and their duties assigned to the state police.

The two deputies remaining here will have headquarters at the office of the state police. The 37 state police on duty in the area will report to them, making investigations of fire and conducting fire hazard inspections.

**W. S. Keese, Jr.,** local agent of Chattanooga, Tenn., and former president Tennessee Association of Insurance Agents, has been elected second vice-president of the Chattanooga safety council. Bart Leiper, Provident Life & Accident; W. C. Brown and Ira Jones, local agents, were named directors.

# EAST

## New England Manual Made Mandatory After Jan. 1

BOSTON—The manual of the New England Fire Insurance Rating Association adopted a year ago and optional at the time for use in manuals of the Boston Board, Insurance Association of Providence and New England Insurance Exchange, will become mandatory for all these rating organizations beginning Jan. 1. The ruling affects all New England except New Hampshire, which has a separate rating organization.

Ralph Sweetland, executive manager, announced the changes the past week which will bring all three associations in line with the New England Fire Insurance Rating Association rules, and stamping offices, after Jan. 1., will operate in compliance with the new setup.

### Short Course to Be June 10-12

BOSTON—The Massachusetts Association of Insurance Agents set June 10-12 for the three-day short course school for fire and casualty agents to be held in Massachusetts State College, Amherst. The Massachusetts department of education will cooperate in conducting the school and G. W. Scott, recently appointed director of education of the National Association of Insurance Agents will assist in planning the course of lectures and discussions. Instructors will be experts in their lines from the insurance fraternity. The college classrooms, dormitories and cafeteria will be available to all students. The school will be open to all agents.

### Eberson Takes Salvage Post

BOSTON—S. E. Eberson was appointed general agent of the New England department of Underwriters Salvage to succeed the late J. F. Quiner. Mr. Eberson went with the salvage company in 1908 and has been a special agent since 1914. He served overseas during the war.

### Lackawanna Insurance Survey

BUFFALO—The Lackawanna Citizens Tax Control Committee, in a letter to Mayor Aszkler of Lackawanna, said a survey of insurance carried by the city would be made in compliance with a request by the city auditor. Mayor Aszkler recently announced he is making a study of municipal insurance. The mayor's action was an aftermath of the payment last September of a $10,000 premium on a policy which he charged duplicated a similar policy already in effect.

### Hampton and Wright Are Slated

ALBANY—It is pretty well understood that when committees of the 1941 legislature are named, Senator Hampton again will be chairman of the insurance committee of the upper house, and Assemblyman Wright will be chosen chairman of the insurance committee of the lower branch, in which post he will succeed R. Foster Piper, who leaves the legislature after several years service. Wright has been a member of the insurance committee.

### Ballard Stresses Safety Need

BUFFALO—The need for safety and greater precautionary measures in business and manufacturing plants, in view of the expansion and speeding up of industry in connection with the defense program, was emphasized by E. L. Ballard, Underwriters Inspection Bureau, in a talk before the Frontier chapter of the American Society of Safety Engineers.

### NEWS BRIEFS

The annual Christmas dinner party of the **Erie County Local Insurance Agents Association** was held in East Aurora, N. Y., with more than 60 in attendance.

**Arthur Tillmes & Son,** Newark, were presented a gold sign by the American of Newark for representing that company over 25 years. The agency also received a congratulatory letter from President Paul B. Sommers.

Krasner, Herman & Stavisky agency of Newark will hereafter be known as **Krasner-Herman Co.** M. A. Stavisky has withdrawn from the firm after an association of 13 years. H. E. Goldberg becomes vice-president, Mayer Krasner remains president and Louis Herman. secretary-treasurer.

# COAST

## Speegle Refiles Suit Against Pacific Board

Xum Speegle, local agent of Salinas, Cal., has refiled a suit in the Monterey county superior court against the Pacific Board and 15 member companies. His original suit was filed at Salinas Jan. 18, and later attorneys for the companies succeeded in having the case shifted to San Francisco. Just recently Speegle dismissed the suit that was pending in San Francisco. Speegle charges that the companies demanded that he cease representing non-board companies and that he cancel his broker's license and that they later withdrew from his agency and refused to accept business from him.

Speegle has employed new lawyers. the firm of Bohnett, Hill, Cottrell & Boccardo of San Jose. The companies that are defendants are Newark Fire, Fireman's Fund, Home F. & M., Fireman's Fund Indemnity, Norwich Union, Citizens, National Liberty, Western Fire, Western C. & S., Baltimore American, Pennsylvania Underwriters, Allemannia, Agricultural, New Hampshire and Northern of London.

Also named as defendants are a number of Salinas local agents.

## Surplus Line Association of California Elects Page

LOS ANGELES—The Surplus Line Association of California held its annual meeting in two sections, the northern one in San Francisco and the southern one here, elected as officers: Chairman, Charles Page, Jr., Johnson & Higgins, San Francisco; secretary-treasurer, F. X. Flood, Edward Brown & Sons, San Francisco.

Executive committee: Northern California, W. B. Swett, Swett & Crawford; Harold Toso, Newhouse & Sayre; Russell Blackman, O'Brien & Blackman Company; E. R. Browne, Otis & Browne, and R. J. Hall, Marsh & McLennan; southern California, Eugene Battles, Rowan & Co.; G. H. Walker, Walker & Co., and W. E. Lebby, state manager Massachusetts Indemnity.

Manager I. C. Toomey reported progress made, premiums in California for London Lloyds having increased.

# MARINE

## Exact Information on Cargo Imperative

Agents can save their insured, themselves and their companies a great deal of trouble by getting the proper information before they apply for inland marine cargo policies. The Interstate Commerce Commission is unusually particular about names and it is important that the agent get the exact name of the truck operator permit. For example, if the policy is written in the name of J. W. Jones while John W. Jones appears on the ICC permit, the insurance company will be requested to change the policy accordingly.

These corrections are not only costly to the companies over a year's time, but the assured is hampered by the delay in getting recognition on his filing with the ICC.

State regulations vary considerably so it is important for agents to find out from the truck operator the exact requirements he must meet in each state. The fact that he merely operates in a state is not enough because some states do not require filing of insurance policies from certain classes of operators. Even if he drives into or goes through certain states he might not have to file evidence of cargo insurance in those states.

### Send List of States

In most cases the companies write the cargo policies rather than the agents and agents have a tendency to send the company a list of states in which the trucker operates with a blanket instruction to file certificates or copies of the policies in each state. If the company follows such instructions without verification many times it will receive several of the policies back from the states with instructions for making revisions or that the filing is not required.

By ascertaining the correct and required information in advance from the trucker before he applies for the policy, an agent can eliminate delay and better serve his clients without causing unnecessary correspondence with his company.

### Armoured Car Guard Sentenced

NEW YORK—Convicted of stealing $27,000 in cash from an armored car of the United States Trucking Company he was supposed to be guarding last June 27, T. F. Phelan was sentenced to serve from three to six years in Sing Sing. A total of $9,346 of the stolen money was recovered. Phelan denied the balance of the loot had been hidden, asserting it had been squandered, or stolen from him. The loss to the trucking company was made good by Commercial Union, which has the line.

### Buffalo Port Kept Open

BUFFALO—For the first time in the memory of veteran marine men, Great Lakes boats probably will be sailing into the port of Buffalo after Christmas this year unless the ice freezes them out.

At the request of the Nicholson Transit

Company, the United States coast guard here has received an order from Cleveland to keep the harbor lighthouse open and the powerful light ready for operation until Dec. 28, indicating that Nicholson hopes to keep its boats going that long.

Marine insurance has expired and all buoys in the Buffalo area have been withdrawn for the winter. Nicholson usually sails as long as weather permits.

# CANADIAN

## Government Ban to Boost Fur Insurance in Canada

TORONTO—In order to preserve Canadian exchange as much as possible, importation from non-sterling countries of luxuries has been banned by the Canadian government. Included in this category is the expensive fur piece.

This has served to boost prices for the higher-priced furs and fur coats, and has paved the way for insurance to stress the value of the two insurance lines to cover them, fur insurance (floater) and furrier's customer's policy.

Insurance premium income from these lines is expected to increase in two ways. First, furs now being worn, and on which insurance is carried, may automatically increase in valuation, due to a possible scarcity of the more expensive types.

Furs now waiting to be sold, if unsold at the deadline set in the budget, also automatically advance in price to the extent of 25 percent. For ample protection, insurance on such stock also must be increased.

### British & Foreign Quits Canada

The British & Foreign Marine has ceased to transact inland transportation insurance in Canada, and C. G. Ross, chief agent in Canada at Montreal, states that application will be made to the Canadian minister of finance for the release of securities on deposit. Inland transportation was the only class handled in Canada.

### Craise Niagara District Chief

NIAGARA FALLS, ONT.—A. A. Craise, St. Catharines, Ont., has been elected president of the Niagara District Fire & Casualty Insurance Agents Association. Vice-president is R. Haist, Niaga Falls, and secretary-treasurer, F. E. Coyne, Welland. On the executive committee are S. O. Mason, president Ontario Fire & Casualty Insurance Agents Association; A. P. MacAvoy, Port Colborne, and Dave Brown, Dunnville.

### Hamilton Agents Rename Rice

HAMILTON, ONT.—Rugh Rice has been reelected president of the Hamilton Fire & Casualty Insurance Agents Association. Vice-president is Robert Doering and secretary-treasurer, T. J. A. Fergusson. Directors are H. Murray, A. W. E. VanSomeren, F. C. Eagle, W. C. Thompson and J. MacGregor.

## 1940 Is Closing as Good Year

(CONTINUED FROM PAGE 11)

The loss experience under automobile contracts varies greatly as to individual companies. Some report that claims under private passenger car coverage show a decrease, while with others the reverse is stated. The same condition applies as to trucking risks.

### Accident Premiums Ahead

Premiums on personal accident business will be somewhat ahead of those for 1939, and a satisfactory loss experience may be counted upon. Health insurance is still written largely as an accommodation.

Surety departments have extended coverages under many of their bond forms since the first of the year, meeting thereby the changing needs of commerce and industry; the broadened indemnity in many cases being accompanied by rate reductions. The income derived from government war contract bonds has been largely offset by the loss of premiums in previous years upon federal construction projects, which have been largely sidetracked to make way for the defense program.

The agitation for compulsory automobile liability insurance continues in this state.

Anticipating the presentation of an unusually large crop of insurance regulatory bills in the legislature during next year, surety and casualty men are speculating as to what these are likely to be.

## Lloyds Again Loses Bank Case

(CONTINUED FROM PAGE 11)

count $60,000. On Oct. 5, the post office at Ottawa advised the plaintiff by telephone that it had registered mail for the bank. Soon an assistant cashier of the bank and another employe called at the post office and were given the two bags for which they signed a registered postal receipt. About 100 feet from the post office they were held up by armed robbers who escaped with both bags. The bank reported the robbery by telephone to the Federal Reserve Bank and by mail advised Lloyds of the robbery.

On Oct. 8, Marsh & McLennan, which had placed the registered mail insurance covering the Federal Reserve Bank, delivered to the Reserve Bank drafts issued by the six interested companies aggregating $60,000 and payable to the Federal Reserve. They also delivered six forms of loan receipts, loss affidavits, a copy of a rider attached to each of the policies and forms to be completed by the Ottawa bank. Marsh & McLennan in a letter to the Federal Reserve Bank, stated that they were enclosing loan receipts and loss affidavits which must be executed and the forms completed by the Ottawa bank and M. & M. requested that the draft be held until all the documents had been returned.

### Transactions of Oct. 10

On Oct. 10, the Federal Reserve Bank endorsed the draft, collected the amount and transmitted the loan receipts and loss affidavits to the Ottawa bank, requesting that the documents be executed and returned to the Federal Reserve Bank and advised the Ottawa bank that "upon receipt of these affidavits and receipts, we shall credit your account $60,000, as the checks from the underwriters have already been delivered to us."

The Ottawa bank replied that it was withholding the loan receipts until the adjuster for London Lloyds was able to examine the wording of the receipt. On Oct. 13, Donald Gray, attorney for London Lloyds, wrote the Ottawa bank that Lloyds had no objection to the bank signing the loan receipts upon receiving the $60,000. On Oct. 17, the executed documents were returned to the Federal Reserve Bank and it credited the Ottawa bank's deposit account $60,000.

The registered mail policies covered all shipments by registered mail from the time of leaving the office of the Federal Reserve until delivered at the place of business of the consignee, including risks by messengers from the post office to the place of business of the consignee. The policies provided that the property of others which the Federal Reserve Bank might elect to insure were insured thereunder.

### Excess Coverage

The policies provided that in respect to losses sustained while property is in transit by messenger to or from the post office, there is coverage only for the excess over any amount which may be recoverable from any other insurance. Nevertheless, the policies provided that the amount of any such loss shall be advanced promptly and shall be refunded to the insurer only as and when recovered by the insured from such other insurance.

The lower court held that the registered mail policies insured only against messenger losses of currency in excess of any other insurance; that the drafts issued by the registered mail underwriters were intended as a loan and not as a payment of the amount lost by the Ottawa bank in the holdup. The lower court concluded that the Ottawa bank was the owner of the $60,000 when it was stolen and thereby suffered a loss in that amount within the terms of the Lloyds policy.

Lloyds contended that the risk of the loss was assumed by the Federal Reserve Bank; that the money that was lost was the property of the Reserve Bank and that the responsibility for the loss was accepted by the reserve bank.

### Ottawa Bank Was Depositor

The court of appeals stated that there was no obligation on the part of the Reserve Bank to deliver the currency to the Ottawa bank's place of business. The Ottawa bank was a depositor with the reserve bank and if desired to withdraw its money, it was bound to go and get it. In this case, however, the Ottawa bank requested the Reserve Bank to send the currency by registered mail. Acting in conformity with that request did not establish an obligation on the part of the reserve bank to deliver the money to the door of the Ottawa bank or place upon the reserve bank the risk of loss in case the currency did not reach the Ottawa bank's place of business. Delivery of bags to the U. S. postal authorities was delivery to the Ottawa bank.

When the reserve bank shipped the currency to the Ottawa bank, title passed to the Ottawa bank upon delivery to its agents, the U. S. postal authorities.

Lloyds also contended that the registered mail underwriters had been subrogated to the right of recovery on account of the loss by the holdup, that they are in fact the real parties in interest and that the action should have been dismissed. They cite cases to the effect that where the entire loss has been paid by the insurer, an action to enforce a claim of the insured must be brought in the name of the insurer. The higher court stated that those cases are not applicable, for the reason that here there was no subrogation.

### Loan Receipts

On the question of the loan receipts, the higher court pointed out that for many years it has been customary for insurers in order to save rights of their assured and promptly to place them in funds, to lend to their assured the amount of the loss, repayable only out of monies collected on account of the loss. There is a line of cases approving such arrangements and holding that such loans are not a payment of insurance.

The court mentioned the case of De Lanoy, Kipp & Swan vs. New Amsterdam Casualty, 11 N. Y. S. (2) 625 in which the circumstances were practically identical.

The higher court also rejected the contention of Lloyds that in any event the registered mail underwriters' policy constituted other insurance carried by the Ottawa bank and that Lloyds was entitled to contribution. "It will not be necessary to discuss these contentions," the court stated.

This case attracted widespread interest. That Lloyd's elected to deny liability came as a great surprise, because under similar circumstances in the past they had always paid up without reservation, and American companies under their bankers blanket bonds have always paid up and have never sought recourse against the Federal Reserve Bank and its insurers. Had the decision gone against the registered mail underwriters, it is understood that the reserve bank was prepared to deliberalize its policies so as not to provide any degree of protection for its depositors who might carry their blanket bonds with Lloyds. The Federal Reserve Bank would not be willing to pay the premium that would be required to provide coverage to banks after title to the property had passed to the banks.

The registered mail insurers are National, New Hampshire, Franklin, Pearl, Aetna Fire and Federal.

## Proper Date for Countersignature Shown

W. S. Whitford, vice-president of Millers National, in his company's house organ, emphasizes the necessity of having the date of countersignature of a policy correspond to the commencement date. He stated that he was prompted to bring up the point because he was shown a policy that was issued April 23, but the countersigning date was April 28. Technically, he states, there were five days for which insurance was paid when the contract was not valid. The policy should have been countersigned as of the 23rd, notwithstanding that it may not have been issued until the 28th.

A policy issued, for instance, on Dec. 1, to take effect Jan. 1, should be countersigned as of Dec. 1. That is because the agent signing it was alive and active and had the right to enter into a contract at that time. However, should he have died before Jan. 1, he would not have had the right to enter into a contract, and had he dated the countersignature Jan. 1, it would not have been a valid one.

If the policy is issued and countersigned before the commencement date, the actual date of countersignature should be used. The countersignature should never be dated after the effective date of the policy.

### Vernor to Speak in Detroit

DETROIT—R. E. Vernor, Western Actuarial Bureau, Chicago, will discuss fire prevention work in the midwest before the Detroit Insurance Women's League at the annual meeting Jan. 14.

## Scan Possibilities Below Rio Grande

(CONTINUED FROM PAGE 1)

consistently by countries. Colombia, Honduras and Santo Domingo, for example, have less favorable ratios than the average. In Santo Domingo the casualty loss ratio is high while in Haiti, on the same island, the ratio is unusually good. The Mexican situation is a particularly unsound one because of the high percentage of reinsurance to net retentions. A company with a $40,000 case, for example, may cede all but $1,000 of it, relying for its profit on the fact that it pays only a 20 percent acquisition cost and receives a 40 percent commission on the business reinsured. Obviously this condition tends to demoralize underwriting judgment.

Though not to anything like the extent in Mexico, the rest of Latin America has this tendency to cede business heavily, partly because they are not in a position to retain large lines and partly because European reinsurers have fostered this attitude in competing for business.

Another point where European influence has left its mark is that the direct writing companies retain from 40 to 50 percent of the unearned premium against contract cancellations or settlement of losses.

### Cut Rate Competition

While the effect of the war has been to aid American reinsurers, it has also brought strenuous cut-rate competition from German and Italian companies operating at the command of their governments with the aim of getting information of military and/or commercial value. There are reports that Italian interests have even gone so far as to buy up companies in South America.

It is understood that an Italian aviation insurance pool has been writing aviation insurance throughout South America at ridiculously low rates in order to get lists of pilots and other information of military value and for economic penetration. A German-owned company in Argentina is competing at rates that are far lower than would be possible without home government support.

Frequently the South American representatives of these Axis-owned reinsurers are refugees from Italy or Germany. This may seem a strange relationship, but the refugees have to earn a living and can earn it most readily in the field in which they are experienced. Likewise, the governments which forced them to leave their native countries find it useful to enlist the refugees' ability. It is also convenient to use them as a camouflage, since there would off hand be little reason to suspect the tieup.

## I. D. Goss, Farm Leader, Is Retiring

(CONTINUED FROM PAGE 1)

agricultural agent in the Northwest.

Mr. Goss has been one of the outstanding figures in farm underwriting circles for the past quarter of a century. Largely as a consequence of his efforts, the America Fore companies have the largest farm and hail business in the middle west. In addition to a large office staff, it has 35 men in the field for the two departments.

### To Return to Indiana

After the first of the year Mr. Goss will return to Rochester, Ind. He will live in the house where he was born, which he has recently had completely modernized. Mr. Goss began insurance work as a part time farm solicitor in 1899 while he was attending college. He knew the agent of Continental at Rochester and made an arrangement with him to solicit farm insurance at $2 a day. He made his rounds on a bicycle. A. J. Dillon, who was at that time the Indiana state agent of Continental, advised him to continue farm soliciting for a few years and then to become a field man. Mr. Goss followed this advice and traveled most of Indiana for 12 years, and in 1918 was transferred to Chicago as a recording examiner in the farm department of Continental.

When Elof Peterson retired as manager of the farm department of Fidelity-Phenix, Mr. Goss took that over in addition to his duties for the Continental. In 1938 when Jacob Nelson retired as manager of the hail department, that was added to Mr. Goss' jurisdiction. Mr. Goss has written a number of articles on farm underwriting. He has always had a flair for writing and had intended originally to go into journalistic work. He has been prominent in the affairs of the Farm Underwriter's Association. He helped to organize it in 1921, served as its president for four years and for 10 years as chairman of the advisory committee, which is the steering unit. He was one of the active advocates of the modernization of the farm form. When the new form was adopted early in 1938, it gave new life to the farm business and brought the coverage up to date. Mr. Goss was one of the organizers of the movement to create a rural section of the National Association of Insurance Agents. He spoke before the Iowa agent's association outlining the possibilities and conferring with R. W. Forshay, Anita, Ia., local agent, who became considerably interested and eventually chairman of the section. Mr. Forshay's enthusiasm made the rural agents movement within the National association an important one.

Mr. Goss' retirement will mark the passing of one of the stalwarts in the farm underwriting field. His 25 years of experience have carried him through the post-war reverses of agriculture and the depression of the 1930's He has always steered a safe, conservative, but at the same time progressive course. He has been a stabilizing influence in the farm business and has always been insistent upon the proper recognition for the farm agent.

### Nicholson with Ill. Department

SPRINGFIELD, ILL.—E. E. Nicholson, former head of the building and loan department of the state auditor's office, is now examiner of securities in the state insurance department, having joined the department when Hayden Davis became director. Nicholson has aided Davis in the Abraham Lincoln Hotel.

**R. V. Branion, Philadelphia manager of Zurich, and J. G. Goetz, managing director of Risk Research Institute, are here shown as they were snapped at the meeting of the National Association of Insurance Commissioners in New York.**

## Want Better Fire Marshal Service in Kansas

The Kansas State Association of Mutual Insurance Companies has forwarded to the governor of that state and to the incoming legislature a petition that was approved at the recent annual meeting requesting that the mutual companies have the privilege of recommending persons whom they deem qualified for the office of state fire marshal, "to the end that this department be taken out of politics and a personnel be created from which we might expect satisfactory service." The petition was submitted by W. B. Gasche, president of Alliance Cooperative. The petition states that the crime of arson in Kansas, quoting President Mingenback of Farmers Alliance, is "eating the heart out of mutual fire insurance companies." Losses on account of arson have been excessive in 1940, the petition states and "we appear to be getting very little benefit from the operation of the state fire marshal's office. The petition points out that the mutual fire companies of Kansas paid $5,351 in 1939 for the support of the fire marshal's office.

### Revise Washington Farm Rates

Changes in the farm tariff announced by the Washington Surveying & Rating Bureau include provision for special rates on portable hop picking machines and on hop picking buildings. Rates on the picking machines are the same as those on machinery and implements and pea viners. A revised circular giving rules and rates for coverage on grain pledged under the Agricultural Adjustment Act of 1938 has been issued. The old circular was limited to grain in storage on farms, while the new ruling and rates include also grain in private storage elsewhere. The farm rate remains at .572 per $100 for fire, lightning, inherent explosion, windstorm and hail. Coverage elsewhere now takes the regular fire rate of the warehouse used, plus additional charges for inherent explosion, windstorm, and hail ranging from .084 for Class "A" elevators to .192 for Class "D" elevators, and from .048 for Class "A" warehouses or tanks to .144 for Class "D" warehouses or tanks.

### Pa. Injunction Not Appealed

No appeal was taken by Commissioner Taggart of Pennsylvania by the deadline for filing such an action, from the decision of the common pleas court of Dauphin county enjoining Mr. Taggart from enforcing a ruling that would have upset the investment portfolios of domestic companies. Hence, the decision becomes final. The petition for an injunction was brought by Fire Association, North America and Franklin Fire.

### Cason Honorary Life Member

DALLAS—A. C. Cason, 80, pioneer local agent and former water commissioner of Dallas, has been elected an honorary life member of the Dallas Insurance Agents Association. He is the third member to be so honored in the ten years' history of the Dallas association, the others being T. L. Lawhon and James Lockhart.

### Dissolve Finance Trade Body

The National Association of Sales Finance Companies is being dissolved. The decision was made at the recent annual meeting. It has been in existence 16 years. Some other arrangements may be made for continuing the publication of "Time Sales Financing."

# The NATIONAL UNDERWRITER




REINSURANCE EDITION


THURSDAY, DECEMBER 26, 1940—Part 2

The NATIONAL UNDERWRITER

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# European Complexities Enormous

## But Reinsurers Manage to Carry On

By ARNE FOUGNER
Vice-president Christiania General of New York

Because of the highly international character of the European reinsurance market, the disturbances of war have been far-reaching. Turmoil, uncertainties, and in several countries disruption of production and finances have brought up a great many reinsurance problems which will not be solved until the war is over. The wonder is that so much of Europe's reinsurance business remains, probably much more than most Americans would believe possible. Europe still remains the center of the world's reinsurance business.

In order to understand the effect of the war on the maze of international linkages that constitutes the reinsurance business of Europe one must have a general idea of how this market is built up, particularly in those respects in which it differs from its counterpart in the United States. A striking difference, for example, is that quite frequently even a medium-sized European reinsurance company carries on its books business representing about 60 different currencies. Another is that while in America both the direct writing and reinsurance companies operate—and are permitted by law to operate—only in a few limited fields—some in fire (and allied lines) and possibly ocean marine, some in casualty and fidelity, some in life insurance—in Europe the same splitting up of the insurance business does not exist. There are, naturally, quite a few companies which specialize in one or a very few lines of insurance, but not generally as a consequence of legal requirements. In some countries, for instance England, a company may operate in fire, marine, casualty, fidelity and even life insurance.

### Continent More Restrictive

As a general rule on the continent, however, the laws require that companies carrying on life insurance confine their activity exclusively to life insurance. But these laws generally do not prevent these special life insurance companies from reinsuring a part of their business with ordinary reinsurance companies. Although there are reinsurance companies operating exclusively in life reinsurance, most of the prominent European reinsurance companies handle life reinsurance besides their generally larger portfolios of fire, casualty and ocean marine.

Compared to the enormous number of insurance companies in Europe (Norway, for instance, with a population approximating 3,000,000, has about 55 stock insurance companies, besides innumerable mutuals), the number of reinsurance companies writing no direct business is relatively small and the great majority of them are quite unimportant, operating within a limited area and often only serving as a kind of reinsurance pool for certain companies. There are one or two exclusively reinsurance companies in most countries but only in Switzerland, Germany, France, England and Italy are there any appreciable number of such companies carrying on a substantial reinsurance business on a more or less world-wide basis.

On the other hand, however, practically all the larger direct-writing companies in Europe operate as active, professional reinsurers to a much larger extent than their counterparts here in the states. Some of them confine their direct business either exclusively or primarily to their home countries, while in reinsurance their business may cover the entire world. The bulk of such foreign reinsurance is made up by obligatory reinsurance contracts on a quota or surplus basis, the kind of wholesale reinsurance agreements known as treaties. A minor part is made up by facultative reinsurance and several companies confine this business to their home countries, where it fits in naturally with their direct business.

While not long ago Lloyds' of London was the only natural market for excess of loss and catastrophe covers, in recent years a good many companies carrying on an important volume of reinsurance business have put quite a considerable amount of such covers on their books. The great majority of excess of loss covers pertain to casualty insurance, particularly automobile and other liability and accident. In fire and allied lines, on the other hand, very few European companies protect themselves by this kind of catastrophe coverage, while here in America that seems to be the general rule.

One explanation is that European insurance is not faced with the same hazards as America faces. Earthquakes (apart from the Balkans), tornadoes, hurricanes, windstorms, etc., are very rare occurrences and never strike with a force comparable to such catastrophes in America. Secondly, while the principle of reciprocity in reinsurance is carried just as far in Europe as here, the reciprocal business received generally derives from various countries, only a little coming from the home country of the direct-writing company. This spreading of the European business gives

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it a great advantage compared to American business. An insurance company in this country with extensive reciprocal reinsurance arrangements when suffering a severe loss in its direct business from some major catastrophe runs the risk of getting a substantial additional loss through its reciprocal arrangements. The European practice avoids this danger.

Generally the direct writing companies which have a larger reinsurance business are getting this from foreign companies. Naturally, their own outgoing reinsurance represents an important element in their acquisition of foreign reinsurance. But such reciprocal arrangements only constitute a part, and often a minor one, of their whole incoming reinsurance portfolio. The principle of reciprocity is more common in some branches than in others. As a rule, I believe I am right in saying, fire reinsurance is more or less universally done on a reciprocal basis.

### Seek to Maintain Parity

If the statistics of a company's fire reinsurance over a period of years show an unsatisfactory experience, however, such company will, of course, have difficulty in obtaining reciprocity or will soon lose reciprocal business. In this respect most companies keep a very close eye on their mutual arrangements, and changes are quite frequently made where the results, even over a relatively short period, have proved to be more favorable to one party than to the other.

The "pure" reinsurance companies, naturally, cannot usually give any reciprocity, at any rate not of a volume comparable with what they take in. But even the greater reinsurance companies, which in their home countries operate in the direct field, seldom give out in reinsurance nearly as much as they take in. Abroad they are regarded as "pure," "professional" reinsurers and may claim to be so, because they don't compete with the direct writing companies. The latter are, therefore, more inclined to cede them business, demanding little or no reciprocal business, because they prefer to see their business in the hands of a company which cannot use and profit from all the information it gets pertaining to the business ceded.

### Nearly All Currencies

It thus happens that a great number of European insurance companies carry on their books reinsurance premiums from all the countries in Europe, and the leading and most active companies in reinsurance often have a business representing nearly all the currencies represented in the entire world.

Even if a company, as said, may have on its books such a great number of currencies, this does not necessarily mean, however, that the company has reinsurance arrangements with one or more companies in the same number of countries. The business is often derived from retrocession—reinsurance business ceded in reinsurance. This is done in two major ways: either a company cedes a certain part of one individual contract or, as is more usual, it pools all its reinsurance business in one or more particular branches, keeps a certain percentage for its own account and cedes the rest in shares of different sizes to other companies.

Some companies do a regular underwriting of their whole reinsurance busi-

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## IN THIS ISSUE

# Reinsurers Help Solve Day's Problems

## PROVIDE REGULARITY AND UNIFORMITY IN EXPANDING SYSTEM

By MERL L. ROUSE
Vice-president Inter-Ocean Reinsurance

Since much has been said and written on the subject of reinsurance in recent years, there is now, at least in the insurance fraternity, a thorough knowledge of its underlying principles.

The professional reinsurance companies devote their full time to reinsurance business and are therefore in a position constantly to study it in all its various aspects. Consequently, does it not seem logical that when a need arises for reinsurance protection, a professional reinsurance company's door is the one on which to knock.

### Exchange of Reinsurance

One of the major developments in the fire reinsurance business in recent years is the exchange of reinsurance by direct-writing companies. These reciprocal arrangements have brought the direct writers into the reinsurance field to such an extent that in some cases reinsurance is a very sizable portion of their yearly premium income. This interchange of business has been stimulated because of a period of favorable underwriting results, and because of its effect on expense ratios.

The chief advantage of exchanging reinsurance is that it lends assistance in reducing expense ratios; that is, the premium volume of a direct-writing company can be maintained at a level necessary for its particular plant. However, in attempting to maintain a certain premium level, underwriting wisdom is often ignored. The prevalent habit of exchanging reinsurance without much thought and study as to the ceding company's method of operation has created a rather careless attitude.

### Stabilized Service

This loose method of maintaining premium volume has not as yet been proved unsound in principle, but there is no doubt that in the absence of adequate reinsurance data a disastrous experience could result. Those responsible for the success of an insurance company's operations should seek protection on surplus amounts of liability from the reinsurer best equipped to furnish a stabilized service.

Indications of an expanding need for fire reinsurance in the future are strengthened by several factors. Insurance, which in the past has been so closely associated with industry and which to some minds has been greatly responsible for the growth of our industrial system, is again reflecting, and may be considered instrumental in the commercial and industrial expansion now taking place in this country.

### Industrial Expansion

Our industrial organizations are gradually undergoing expansion in order to cope with an increasing demand for their maximum productive ability and this naturally is resulting in a need for more insurance protection on the part of the producers. National defense expenditures are resulting in a huge increase of industrial output with a corresponding increase in the national income. It will be necessary to protect the increased values by all forms of insurance. Obviously direct-writing companies will be accepting larger liabilities and in following sound underwriting practices, will need greater reinsurance capacity.

In providing this greater reinsurance capacity, the professional reinsurers of this country will also help to solve the problems produced by the present war raging in a large part of the world. Previous to World War I a large proportion of American reinsurance was handled by foreign reinsurers. When that conflict made apparent the need for a domestic reinsurance market, less reinsurance was turned over to other markets. Now World War II duplicates the experience of two decades ago with American companies seeking reinsurance facilities in the domestic market.

### Scale Is Being Broadened

Due to their large carrying capacity, foreign markets have continued to transact a substantial reinsurance business in this country. Only now are the domestic markets being developed to handle the larger lines of reinsurance on a scale comparable to that offered by some foreign reinsurers. When domestic markets are developed for adequate reinsurance capacity, it is natural to assume that the historical trend of using domestic reinsurance facilities will be repeated.

In addition to furnishing reinsurance capacity we must also take into consideration the individual needs of our direct-writing companies, for experience has proved that many forms of reinsurance contracts are needed to provide adequate protection for the reinsured companies. Consequently, it is necessary for reinsurance companies to be prepared to write flexible and comprehensive contracts. Absence of standard forms makes it possible to offer a wide variety of contracts—the rates and terms, of course, varying with the protection desired. Some reinsurance contracts are tailor-made and in such cases the direct-writing company secures a contract which covers its individual needs.

The true function of reinsurance is to promote regularity and uniformity in the underwriting results of the reinsured company so that each year's operation results in an approximate satisfactory average with all other years. In order to reach this goal many problems must be solved, and, if it were not for the fact that reinsurance companies offer special and varied contracts, it would be more difficult for direct-writing companies to maintain uniform results.

MERL L. ROUSE

During the past 10 years many new plans of reinsurance have been proposed and some are in force today. Widely discussed at the present time is the form known as spread loss, now being used to replace pro rata reinsurance. This form of reinsurance has some advantages and many disadvantages. Although it gives a limited amount of protection, careful analysis usually proves it to be expensive protection. Those who argue that its exclusive use is the best form of protection are overlooking certain important facts which if not carefully considered before entering into such a plan are apt to result in an unsatisfactory arrangement.

### Makes No Distinctions

One important criticism of spread loss protection must not be overlooked. It has been pointed out that careful attention must be given to the individual needs of direct-writing companies. Pro rata contracts take into consideration the multitude of classes of business written by the reinsured company. In contrast spread loss contracts make no provision for differences between good and bad business. A charge, usually subject to change, depending upon the experience of the contract, is made upon the net business written by the reinsured company. Thus, losses on poor business result in an increased tax on the preferred business of the reinsured company. Rather than possessing a tailor-made garment, the direct writer finds itself with a bargain-basement garment which may or may not fit.

The idea which lies at the root of every reinsurance contract is that it must be so constructed as to give mutual advantages to both parties. The reinsured company desires and rightfully expects protection and the reinsurer anticipates a reasonable margin of profit. A reinsurance contract which accomplishes this dual result is naturally the one which should be placed in operation.

### Fair Distribution of Profits

For continuous operation over a period of years it has been proved that pro rata reinsurance reflects a fair distribution of profits. Other forms of reinsurance may function just as well in some cases, but it is difficult to justify some of the changes now being made.

An analysis of the last 10 years' operation of fire reinsurance companies discloses an underwriting profit, but the year 1939 was definitely the beginning point of a period where the loss ratios on fire business as a whole are on an upward trend.

It is rather doubtful that the 1940 operations of fire reinsurance companies will produce an underwriting profit, but there are encouraging signs which point to better results within the next few years.

# Idea of Huge U. S. Reinsurance Fund Causes Bewilderment

From time to time ever since the start of the European war, the rumor has gotten around, sometimes in printed form, that a movement was underway to get together huge aggregations of capital in this country to provide domestic reinsurance facilities. Those who have advanced such an idea have not been revealed and the talk has been decidedly nebulous. Those who understand the reinsurance business are inclined to scoff at these proposals and say that they are not related to the necessities of the situation.

Probably at the moment some of the American reinsurance companies could use more capital to take care of the increased business that has come their way as a result of the war situation and because of the stimulation of business generally. However, whatever those needs may be they are not anywhere within the range of some of these rumored projects, which usually start out at about $50,000,000.

Apparently what those who are thinking of such a huge aggregation of capital have in mind is an American market comparable to London Lloyds. They are not thinking of capital to provide ordinary everyday treaty reinsurance.

### In Realm of Banking

A reinsurance executive of considerable experience who has been interested in these rumors, but is at a loss to understand where they emanate, feels that any such project as that would be far removed from reinsurance and would be entirely in the realm of banking. A successful reinsurance company is well satisfied if it can produce a 5 percent profit over the years. In order to do so, it must watch its accounts very carefully, provide for a spread, avoid congestion of liability and arrange proper retrocession facilities. If a reinsurance company had huge assets, the management would be under pressure to roll up a volume of business that would be in line with what it had to work with. In so doing it would be forced to abandon the control that it exercises in order to produce a profit on a much smaller capital, and the chances are that in so doing it would operate at a loss.

The fact of the matter is that there is no serious lack of reinsurance capital. During the past decade there has been too much capital in the reinsurance business because the direct writing companies have taken numerous steps that have had the effect of starving the reinsurers. It might even be difficult today to induce bankers to support new financing of reinsurance companies, because they would be inclined to look at the record and be unimpressed.

A fund in the neighborhood of $50,000,000 could only be created in this country with the idea of competing for the London Lloyds type of business, such as catastrophe excess cover, burning cost plan reinsurance, excess contracts for self-insurers, ocean and inland marine reinsurance, etc.

## Reinsurers Not Hard Hit in Armistice Day Storm

The fire reinsurance companies were not hit as hard proportionately in the Armistice day storm throughout the middle western territory as were the direct writing companies. This was true because the damage was largely suffered by dwellings and a great deal of the dwelling business falls within the net retention of the direct writer. The reinsurers, however, did have a substantial number of losses that involved a great deal of busy work. Hundreds of checks went out for amounts of just a dollar or so from reinsurers. There may have been some recoveries under catastrophe excess covers but the losses probably did not average more than about $25 and the direct writing companies could pay many of these losses without reaching the limits of any excess contract.

# Casualty Reinsurers Are Affected by Changing Scene

In casualty reinsurance in this country there is a decided tendency to cause the excess limits that are passed off to be in even amounts. In other words the distinction is removed as between loss on account of the death or injury of a single person and between multiple injuries arising out of the same accident. The reinsurer, for instance, will pay all losses above $20,000, arising out of a single accident, regardless of whether only one person has been injured or many. Under the traditional system the direct writing company would reinsure excess of $10,000/$20,000, for example.

The even amount system makes for simplicity but the principal reason for reinsuring on that basis seems to be a realization that since reinsurance is intended to provide a cushion against shock, it is illogical to make a distinction as between circumstances that bring about heavy loss payments. A $50,000 judgment in favor of several individuals is just as expensive for an insurance company as $50,000 in favor of a single individual.

Usually the change is brought about by reducing the limit of retention in connection with multiple injuries to the limit applicable to a single individual. The transition is to some extent a natural outgrowth of the modern method of handling excess liability covers, particularly in the automobile end. Practically all automobile reinsurance is now written without bordereaux. The reinsurer agrees to take care of all losses above a certain amount and below a certain limit and charges a percentage of the net premiums of the direct writing company. That charge is in the final analysis tied to the experience of the individual account. In former days of bordereaux when the direct writing company paid the manual charge for reinsurance according to the excess limits table it was a natural practice to follow the uneven limits.

The even limits also tend to go hand in hand with the so-called basket scheme of reinsurance which is becoming increasingly popular. Under the basket clause, the reinsurer undertakes to provide recovery over the specified limits for all losses arising from a single accident regardless of the type of policy involved. The limits are usually set higher than are those for the specific policy reinsurance and they are usually expressed in even amounts without making the distinction between a single individual and multiple injury. Thus the individual policy limit might be $20,000 and the limit under the basket clause might be $40,000.

* * *

**WATCH COMPULSORY AUTO**

The casualty reinsurers are watching with much interest the discussions regarding compulsory automobile insurance. If compulsory insurance should be enacted in New York state, and then in other states, as many fear, one effect is likely to be that the reinsurer will have to reduce its percentage charge upon the net premiums of the direct writing companies. That would come about by reason of the fact that very few of the motorists who would be compelled to carry insurance would buy more than the limits required by statute. The premiums of the direct writing companies would be swelled many fold, but the liability of the reinsurers would be little, if any, increased. That would provide no particular hardship upon the reinsurers, but it is a change that they foresee.

* * *

**SURETY BOND SITUATION**

The reinsurance companies are very much interested in the surety bond situation, especially in connection with bonds required in the defense program. The reinsurers have already felt the effect of this activity and they anticipate that their surety premiums will mount considerably next year. In the normal course, the reinsurers are not a big factor in the surety business. Some of the business goes to them under obligatory treaties, but for the most part, reinsurance in the surety field is handled on a reciprocal basis by the direct writing companies.

However, the reinsurance market is being sought quite actively these days in connection with defense bonds. This seems to be true for one thing because some of the bonds, particularly on shipbuilding, are of such size that the entire capacity of the surety market is needed. Sometimes, in fact, it has become necessary for the government to reduce the amount of the bond that is asked because there is not sufficient capacity available. For another thing, some of the bonds that are being written are regarded by direct writers these days as decidedly accommodation business, not accommodation for the agents, but for the government and the surety business as a whole.

The surety underwriter has really lost pretty much of his power of selection in connection with bonds for defense contracts. There is a very real threat that if the surety companies do not readily take what is offered, the government will simply abolish all suretyship requirements. The surety people pay respect to this threat because they have already seen a great deal of potential business lost through the provision permitting the war and navy departments to award contracts on a cost-plus-a-fixed-fee basis without surety bonds. The surety companies have digested some pretty unpalatable business in an endeavor to preserve their position. They have had to close their eyes and write some bonds for interests that they regarded as promotional, lacking in experience and with inadequate equipment. Indeed, it is said that some of the companies have put up loss reserves immediately upon writing some of the bonds.

Because of the large lines involved and because of the undesirable character of some of the business, the reinsurers find that an abnormal amount of business is going their way. The reinsurers are automatically bound under surety treaties for their share of the line where the direct company is the originator or co-originator of a bond. They are not, however, automatically bound under the treaty for amounts taken by a direct company on a co-surety basis. The reinsurers have a busy time reconciling their lines. They may be obligated under the treaty and yet have little capacity left over for co-sureties, whom they would like to favor.

* * *

**SURCHARGE INSURANCE**

The business of insuring a firm that has its insurance on a retrospective basis against the necessity of having to pay a premium in excess of the standard premium on the conventional basis became in very short order a loser for London Lloyds, which has written most of this business. At first Lloyds wrote these contracts very freely and granted binding authority to numerous representatives in this country. However, the experience turned sour and Lloyds scrutinizes applications for such business very carefully.

Some of the American casualty reinsurers have offered a market for this business but they, too, are cautious in their underwriting. Lloyds apparently did not pitch its rates high enough and then there were other adverse factors. For instance, some of the risks retrospectively rated were given very low rates by reason of reductions on account of operations in so-called open states. Hence, the premium for the insurance of the surcharge which is based on the standard premium, was less than what a true manual rate would have produced. Also, there was the danger that the direct writing company might load its loss reserves with the result that the reinsurer would suffer a loss. If the loss were not settled prior to the premium adjustment date, the reinsurer would be liable.

The American companies regretted to see this type of cover offered as they felt it nullified to a large extent the purpose of retrospective rating. However, they made no attempt to bar such cover and the bureau even made quotations that its own companies might make for such cover. However, very little of this business has been written by the bureau companies.

* * *

**COMPREHENSIVE LIABILITY**

The reinsurance companies are interested in the movement in the casualty field to bring out a comprehensive general liability policy. They are not at all disturbed by the prospect of this development and are quite sure that they can assume their share of the responsibility, whatever it may prove to be. They anticipate that the policy will appeal mainly to the very largest risks and that most of the buyers will desire high limits of coverage with the result that the reinsurers will get a taste of practically all such business that is written. They do not fear that the unknown hazard that may be assumed in comprehensive policies will be much of a hazard.

# Reinsurance Plays Part in Experimental Underwriting

**By R. H. ERICKSON**
**Reinsurance General Agent, Chicago**

In the hectic days to come insurance in all its ramifications will play a very important part in the economic welfare of every one living in this fair land of ours. Those of us in the reinsurance business will act as the silent partner, bolstering here, relieving there.

It will take keen minds to guide the underwriting policies of all insurance companies whether it be life, or property damage coverage. For our own part, as reinsurance underwriters, we will necessarily follow the precepts set down by direct company underwriters to a certain point; following that, we must do what is dictated by our own experience.

**Rely on Direct Company**

It is very interesting to sit on the side lines and still be in the game, watching and playing at the same time. Underwriting practices of reinsurance companies doing a facultative business do not differ greatly from the direct writing companies; each have definite lines on certain classes of business. On the better classes there is a certain amount of elasticity in net retentions. Direct writing companies have greater access to information necessary for underwriting, such as field force inspections, national inspection, and state bureau reports. Facultative reinsurance companies, when accepting a line, must rely greatly on the information given them by the ceding company, particularly as regards the moral hazard.

In general the underwriting policies of all direct writing companies are very similar. The principal difference is in the underwriting of particular classes. A review of these underwriting practices will disclose, I believe, a particular class of business which is the company's favorite—it may be metal workers, or school and church properties, or any other class either protected or unprotected. For instance, a company may be partial to farm business and by close supervision and careful study, show a constant profit on the class, whereas, other companies will show a consistent loss. One company may specialize in mill and elevator business and by continuous inspection, paying particular attention to housekeeping and explosion hazards, reduce the hazard below normal for the class and therefore, show a profit on an otherwise extra hazardous group of risks. Other companies writing the seemingly same class, at least from the appearance of the risk on a daily report, will not be able to duplicate that company's experience.

**Follow Pet Lines**

By constant association with the underwriting departments of the various companies, we soon learn which are the favorites of the various offices, and guide our acceptances by their own writings. We will accept larger lines from companies on those particular classes which are their pets. Our own line sheet is the usual underwriting guide, but quite flexible. We have no particular hesitancy in accepting a socalled accommodation line for a small amount providing we are thoroughly satisfied that the assured has a clear fire and commercial record. A review of our files will disclose that our loss ratio is incurred by the ordinary run of business, neither preferred nor accommodation.

Some years ago the receipt of a $10,000 line on an unprotected brick school would cause an examiner to shudder and immediately put in a rush call for the office reinsurance placer requesting that he place $7,500 facultative reinsurance. Today the same examiner will pick up his dictaphone and write the agent a

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R. H. ERICKSON

## FIRE REINSURERS REGAIN COMMANDING POSITION

# Bleak Period in Field Seems Closed

After many years of comparatively scant living and of occupying what might be termed a poor relations niche in the estimation of direct writing companies, the professional fire reinsurance companies today enjoy almost a commanding position in the business. The results for the year will be uneven, but some of the reinsurers in their report of 1940 activities will show some particularly handsome gains in premium volume. Indeed, the gains are so substantial that there is talk of the necessity for additional capital in the reinsurance branch of the business.

The increase in premiums is, of course, satisfying to the pocket books of the reinsurers, but there is perhaps an even deeper satisfaction to their soul in the fact that they have gotten out of the poor relations classification in the eyes of direct writing companies.

The decade of the 30's was a very bleak one for the fire reinsurance companies. The direct writing companies were seeking in every way possible to retain more and more of the premium, principally in an effort to prevent the expense ratio from skyrocketing. Some of the companies that had been reinsuring on the obligatory treaty basis abandoned that system in whole or in part in favor of the excess of loss or burning cost plan whereunder the excess insurer collects a percentage of the net premiums of the direct company, pays 90 percent of the losses in excess of the desired limit and adjusts the percentage charge annually in the light of experience.

Then there was a big increase in reciprocal reinsurance arrangements whereunder direct companies traded reinsurance with one another either on the treaty or facultative basis or both. Then, of course, the surplus to policyholders of the companies attained such size that there was a constant increasing of net retentions, a practice that was also given impetus by the low loss ratios.

There were a number of other schemes that were adopted that also had a depressing effect upon the business of the treaty reinsurers.

That cycle now seems to have come to an end. The value of the professional reinsurance market is again being recognized in this country and the value is likely to be very much accentuated this year. For one thing, the tremendous values represented in many of the defense projects, particularly airplane factories, has already put a strain on the insurance market and the capacity of the reinsurers is being exhausted on several lines. Then again there is a belief and hunch on a widespread scale that losses are destined to increase sharply as industrial activity is stepped up to a feverish pace. There is a fear not only of losses due to sabotage but those that always seem to accompany an era of intense industrial movement,due to carelessness, to green help, etc. If that does come to pass, companies will probably become closer underwriters. If there is an increase in premiums that will tend to make the expense ratio less of an eyesore and those two developments should redound to the advantage of reinsurers.

### Effect of War Situation

The war situation, however, was primarily responsible for the improved situation of reinsurance companies in this country. The United States branches of British companies were compelled to terminate their reinsurance relationships with companies on the so-called British statutory list and that included the United States branches of companies in Axis and Axis occupied countries.

On facultative business, that is on risks specifically reinsured, all new business immediately ceased. That is, the U. S. branches of British companies no longer gave off nor accepted new facultative business from the branches of companies from Axis occupied countries. However, the existing business was permitted to run to expiration, since the reinsurers held to their rights of short rate cancellation. On treaty business, the contracts all provide for notice of cancellation, usually six months. The British companies gave the required notice of cancellation but, of course, had to continue to reinsure current business in accordance with the contract until the effective date of the cancellation.

### Dec. 31 Is Date of Many

The effective date of the cancellation of several of these contracts is Dec. 31 of this year. At that time the reinsurer will be compelled to return to the direct company the entire portfolio or in other words the premium reserve on the outstanding business. That will make a big hole in the premium reserve and assets of some of the reinsurers in their 1940 statements. It will cause no financial embarrassment, however. These companies have had ample warning and are in liquid condition.

The replacement of these contracts is the primary cause for the enhancement of the value of the position of the professional reinsurance company. The business has been switched either to domestic reinsurance companies or to the United States branches of British reinsurers or to the U. S. branches of reinsurers that are domiciled in countries not dominated by the Axis powers.

The situation is again complicated by reason of the fact that the United States branches of companies from countries in control of the Axis powers lost their retrocession facilities with British insurers under the trading with the enemy provision. Many of these retrocessions were with London Lloyds. It became necessary for these companies to find new retrocessionaires and that market consisted largely of American reinsurers or the United States branches of reinsurers of countries other than British.

These adjustments were painful, because the business relationships that were disturbed had been built up over a period of years.

### Complications Arise

A lot of complications arise in connection with the application of the trading with the enemy act and adjustments are possible. For instance, the

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## Significant Items from 1939 Statements of Reinsurers

In the following columns are presented certain extracts from the 1939 statements of the companies in the United States engaged exclusively in the fire reinsurance business. The table is on the same basis as that which usually appears in the reinsurance edition of the "Review" of London. It is understood that the "Review" has gotten out a reinsurance edition as usual this year, but it has not yet arrived in this country.

| Est. | Company | Capital. $ a | *Surplus. $ b | †Underwtg. Reserves. $ c | Cover a, b, c to e | —Net Premiums— Written. $ e | Earned. $ | Underwtg. Bal. (Off.). $ | Interest Revenue. $ | Offic. Inv. Profit or Loss. $ | Dividend Amount. $ | Paid Rate. % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1926 | Amer. Reserve... | 1,000,000 | 1,282,815 | 2,912,825 | 1.7 | 3,078,825 | 3,000,595 | —244,547 | 219,160 | 259,684 | 150,000 | 15 |
| 1913 | Eagle Fire Nwrk. | 815,000 | 373,178 | 1,033,831 | 2.6 | 865,092 | 939,293 | —40,822 | 82,037 | —3,854 | ........ | |
| 1918 | Hudson ......... | 600,000 | 572,828 | 13,059 | 37.1 | 3,196 | 2,232 | —11,611 | 35,382 | 35,228 | ........ | |
| 1909 | International .... | 1,000,000 | 3,445,850 | 1,949,694 | 3.4 | 1,903,600 | 1,747,302 | —2,473 | 237,417 | 240,845 | 200,000 | 20 |
| 1920 | Inter-Ocean Re... | 500,000 | 1,615,947 | 3,569,705 | 2.2 | 2,529,474 | 2,713,549 | 102,510 | 182,915 | 74,274 | 150,000 | 30 |
| 1932 | Metrop.-Fire Re.. | 400,000 | 1,120,114 | 1,430,889 | 2.6 | 1,136,990 | 1,207,314 | 11,637 | 77,510 | 123,352 | 84,000 | 21 |
| 1939 | **Natl. Reins. .. | 1,000,000 | 5,549,355 | ........ | ... | ........ | ........ | ........ | ........ | ........ | ........ | |
| 1919 | Northeastern ... | 1,500,000 | 927,484 | 2,655,144 | 2.0 | 2,530,544 | 2,521,443 | —59,083 | 153,688 | 58,425 | ........ | |
| 1925 | North Star Re .. | 600,000 | 1,526,085 | 2,345,677 | 2.4 | 1,900,546 | 1,847,238 | —54,811 | 138,181 | —25,320 | 59,976 | 10 |
| 1925 | Pilot Reinsurance | 1,200,000 | 1,520,535 | 1,118,182 | 4.4 | 867,548 | 896,495 | —17,111 | 166,560 | 51,819 | 150,000 | 12½ |
| 1922 | Prudential ...... | 600,000 | 2,279,511 | 3,153,891 | 2.6 | 2,357,217 | 2,442,893 | 100,757 | 217,462 | 196,730 | 210,000 | 35 |
| 1936 | Rein. Corp., N. Y. | 1,530,000 | 4,998,898 | 374,576 | 12.5 | 548,922 | 553,502 | 76,571 | 251,157 | 57,262 | 229,510 | 15 |
| Total 1939 | (12 Co.'s). | 10,745,000 | 25,212,600 | 20,557,473 | 3.2 | 17,721,956 | 17,871,856 | —138,983 | 1,761,469 | 1,068,445 | 1,883,486 | .. |
| Total 1938 | (10 Co.'s). | 9,145,000 | 19,418,765 | 20,864,045 | 2.7 | 18,281,086 | 17,653,766 | —965,009 | 1,742,215 | 4,009,146 | 1,345,590 | .. |
| Total 1937 | (10 Co.'s). | 9,045,000 | 17,978,040 | 20,325,537 | 2,4 | 19,378,477 | 17,187,469 | —194,645 | 2,237,501 | —7,562,596 | 1,511,048 | .. |
| Total 1936 | (10 Co.'s). | 9,045,000 | 27,502,549 | 18,070,087 | 3.1 | 17,333,317 | 16,787,905 | 159,433 | 1,757,129 | 4,976,858 | 1,671,796 | .. |
| Total 1936 | ( 9 Co.'s). | 7,515,000 | 20,387,422 | 18,063,634 | 2.6 | 17,324,048 | 16,783,271 | 156,408 | 1,753,778 | 4,996,223 | 1,671,796 | .. |
| Total 1935 | ( 9 Co.'s). | 7,515,000 | 16,958,507 | 17,547,208 | 2.4 | 17,155,871 | 17,183,903 | 672,017 | 1,569,970 | 4,502,976 | 966,000 | .. |
| Total 1934 | ( 9 Co.'s). | 7,515,000 | 12,760,846 | 17,653,573 | 2.1 | 17,672,580 | 17,880,664 | 1,190,385 | 1,678,437 | —883,947 | 776,000 | .. |
| Total 1933 | ( 9 Co.'s). | 7,715,000 | 12,712,784 | 18,253,788 | 2.4 | 16,095,315 | 18,816,192 | 2,288,822 | 1,550,838 | —4,235,800 | 529,000 | .. |

*Includes Special Reserves.
†Premium and Loss Reserves.
**Began business Dec. 29, 1939.

| Foreign Group: Ent'd. U.S.A. | Company | *Surplus incl. Deposit $ a | Underwtg. Reserves. $ b | Cover a, b to e | —Net Premiums— Written. $ e | Earned. $ | Underwtg. Bal. (Off.). $ | Interest Revenue. $ | Official Inv. Profit or Loss. $ | Trans. to Home Office (Net). $ |
|---|---|---|---|---|---|---|---|---|---|---|
| §1919 | Baltica ............... | 1,257,497 | 1,030,918 | 2.6 | 893,370 | 904,746 | 20,505 | 77,178 | 79,866 | 27,165 |
| ‡1918 | Christ. Gen. ........... | 1,288,285 | 1,860,831 | 1.8 | 1,766,780 | 1,605,140 | —53,296 | 112,574 | —13,954 | 221,627 |
| 1934 | French Un. & Univ....... | 778,322 | 514,759 | 3.0 | 431,215 | 434,421 | 1,649 | 37,345 | 30,198 | 37,259 |
| 1910 | General Fire, Paris ...... | 2,317,712 | 2,245,284 | 2.3 | 2,000,356 | 2,238,424 | 73,778 | 142,353 | 103,728 | 36,383 |
| 1924 | Jupiter General ......... | 475,790 | 222,978 | 5.9 | 117,499 | 182,583 | 45,661 | 23,006 | 12,839 | 1,508 |
| 1937 | La Paternelle ........... | 508,330 | 40,741 | 11.0 | 49,491 | 50,745 | 9,800 | 20,417 | 33,059 | 65,112 |
| 1900 | Skandia ................ | 1,908,648 | 1,955,911 | 2.4 | 1,603,288 | 1,496,705 | 10,114 | 120,372 | 38,441 | 64,657 |
| 1916 | Skandinavia ........... | 1,078,391 | 1,030,132 | 2.1 | 983,868 | 892,062 | 10,655 | 66,873 | 34,632 | 18,766 |
| 1910 | Swiss Reins. ........... | 9,132,778 | 6,675,664 | 3.1 | 5,106,642 | 5,274,154 | 156,672 | 522,048 | 270,488 | 3,825 |
| 1910 | Union & Phenix ........ | 944,245 | 762,944 | 2.6 | 660,417 | 631,432 | —10,153 | 63,760 | 184,185 | 63,973 |
| 1913 | Urbaine Fire ........... | 883,002 | 514,760 | 3.2 | 431,214 | 434,451 | 9,583 | 56,065 | 46,433 | 55,741 |
| Total 1939 | (11 Co.'s)............ | 20,573,000 | 16,854,922 | 2.7 | 14,044,140 | 14,144,863 | 274,968 | 1,241,991 | 819,915 | 596,016 |
| Total 1938 | (11 Co.'s)............ | 19,820,461 | 17,091,588 | 2.6 | 14,383,999 | 14,275,227 | 28,443 | 1,283,082 | 1,702,395 | 436,782 |
| Total 1937 | (11 Co.'s)............ | 19,030,717 | 17,385,986 | 2.4 | 15,228,216 | 14,297,911 | 541,912 | 1,532,395 | —1,817,364 | 1,640,838 |
| Total 1936 | (11 Co.'s)............ | 21,554,914 | 16,500,986 | 2.7 | 13,858,163 | 13,961,742 | 737,824 | 1,532,928 | 3,535,018 | 667,486 |
| Total 1936 | (12 Co.'s)............ | 22,329,648 | 16,503,986 | 2.8 | 13,853,035 | 14,050,232 | 777,265 | 1,568,932 | 3,543,941 | 667,486 |
| Total 1935 | (12 Co.'s)............ | 18,575,238 | 16,886,331 | 2.4 | 14,636,602 | 15,103,271 | 1,983,715 | 1,476,793 | 2,603,413 | 2,854,135 |
| Total 1934 | (12 Co.'s)............ | 17,129,094 | 17,631,644 | 2.3 | 15,037,348 | 16,176,358 | 1,988,536 | 1,647,223 | 1,706,077 | 3,368,216 |
| Total 1933 | (12 Co.'s)............ | 17,754,972 | 19,701,879 | 2.3 | 16,056,886 | 16,678,026 | 2,517,310 | 1,649,183 | —1,080,383 | 2,101,016 |

*Includes special reserves.
†Premium & loss reserves.
§Now Constitution Reinsurance of New York.
‡Now Christiania General of New York.

# Reinsurance Resurgent

By W. J. LANGLER
Vice-president Northeastern

## New Lease of Life Is Taking Shape

The gentleman who originally coined the expression "It's an ill wind that blows nobody good," really had something and the beauty of it is that it is so flexible in its uses that it can be made to apply to things both material and immaterial, even to reinsurance.

About the time that those who devoted their waking hours (and some of those reserved for sleeping) to the waning light of the fire reinsurance business had arrived at the conclusion that it would have to become an ABC project and be plowed under like little pigs—or happier destiny, be the recipient of government largess on consideration that it wrote no new treaties for a fixed period, along came a man-sized war and, with it, a new lease of life for the professional reinsurers. Lifted was the bugbear of reciprocity, gone were the sighs of despair—gone with the wind—the ill wind which reversed the prevailing current of air that customarily flows from west to east along with the revolving globe.

### Recalls Ebb and Flow

That is a curious thing about the reinsurance business—the deader it becomes the nearer it approaches animation. The trouble is that one day somebody will forget the corpse-reviver and there will be a funeral. Look back over a few years and see the ebb and flow, the war years of 1914 to 1918 when reinsurance was really in flower and then about 1920 onward when the mortality was fearful. Around 1924 the writer was told that in five years the reinsurance business would be dead but in 1929 it was on top of the world. By 1932 it was in the abyss from which it has since been slowly extricating itself, only to find that its weakness had opened the door to the wolf of reciprocity and so it struggled along to 1939, striving to make a living—that's all it asked for—a means of existence. But in the fall of 1939 the wind changed its direction and as the war took its deadly toll upon country after country, the reciprocal channels of reinsurance exchanges closed one after another—just as was said about the lights in Europe going out. All at once American reinsurance companies found themselves the recipients of foreign cables inviting them to participate in treaties that never would have been available to them under normal conditions. Reinsurance executives had long distance calls from points in Canada suggesting that an opportunity had come their way to get some European business. Marine treaties were offered, even South African business was available.

A wealth of opportunity, a chance to say "Sorry," a sense of well-being, all pervaded the reinsurance business, whose officers saw an increase in premiums inevitable with a chance to pick and choose. Happily our friends who represented foreign companies in the "occupied" territories were not forced to fall by the way and made ready to meet the new conditions. Reinsurance was under way once more!

### Rearmament Plans

The vast re-armament plans of the nation inevitably means increases in values everywhere—new factories, machinery, housing, inventories, etc., and that means surplus lines and the staff of life—reinsurance. If, when and as there should be inflation, then, of course, the reinsurance companies will think that they have fallen heirs to Pharoah's seven fat years and will forget all about the seven preceding lean years. They might even adopt as a theme song "Happy Days Are Here Again" so long as they don't forget a postscript "Providing one of these mammoth aircraft plants doesn't decide to go up in flames."

In the marine field the expansion has not been so great as in the last war.

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The "cash and carry" principle and the executive order to keep all American ships out of the war zones has caused a great deal of insurance to escape the American companies. It was that enormous volume in 1914 to 1918 that helped to create and feed the flock of reinsurers which came to this country around that period. So far we should judge the American market has not been pushed to absorb all of the marine business that has been available on this side of the Atlantic. Indications are not wanting that British companies have had to come to the United States for help, which is a reversal of the usual trend.

### Auto Finance Business

Another field which offered opportunities to reinsurance companies was opened when the National Automobile Underwriters Association passed a resolution limiting the amount of commission to be paid on automobile finance business. That shook out some of the direct writing companies and gave the reinsurers or non-conference companies a chance to get in. According to Law's Statistical Tables for 1939 business the reinsurance companies wrote only $1,565,248 in automobile net premiums, where the direct companies retained $183,237,308. An interesting feature is the loss ratio—paid to written—43 percent for American direct companies, 42 percent for the foreign direct companies and 41.2 percent for the reinsurance companies. It would be interesting to know Lloyds experience. Evidently the reinsurers could handle some automobile business with advantage.

### Thin Inland Marine Share

In the inland marine field the reinsurers' share is again very thin, because while the direct companies retained $45,342,065 in 1939, all the reinsurers got was $1,540,022. Here we can be sure that London Lloyds has had a very important income and they are going to need it to pay for the Tacoma Bridge, for the chances are that they have the bulk of the excesses.

Here we have the ill-wind working again. Lloyds underwriters have undoubtedly suffered the loss of a lot of business, get bombed by day, have their nights made hideous and then to have the third largest suspension bridge in the world fall into their laps! They must have the impression that there is a combination of the elements and all the evil forces at work for their destruction. It never rains but what it pours!

### Excess of Loss Covers

The writing of excess of loss covers continues to engage the interest of reinsurance companies, but in general they find their financial resources well occupied in handling the usual treaty and facultative business and have little disposition to unduly extend themselves to take on this class of business. In more respects than one they can hardly be blamed for hesitancy in supporting transactions which are designed in many cases to deprive the professional reinsurance companies of the functions for which they were organized. Furthermore, when disasters come, the reinsurers are usually quite busy licking their own wounds without having to provide financial aid and comfort to companies often better able than themselves to withstand the shock. If moralizing is permitted and hindsight tolerated in an article of this kind, it seems to the writer after 38 years of the ebb and flow of the reinsurance tides that there is no place in the business for the too ambitious and there is no substitute for sound principles, high grade investments, experienced management, economical operation and substantial capital and surplus. Then it is just a matter of waiting for the tides. They will come to you—it will not be necessary for you to go to them—the old story of the man who made the best mousetrap. When the tide reaches full flow you're sitting pretty. As the tide recedes let yourself be gently deposited on the beach and do not rush to be carried out to sea. The tide returns every so often and you can float in again on the next crest. Longfellow must have had reinsurance in mind when he said "The tide rises and the tide falls."

# Effect of Changing Map

The story of what has happened to the insurance business in Europe during the war period is available in this country in only fragmentary fashion. However, certain broad facts are known here.

As the map of Europe has changed the insurance and reinsurance business has undergone successive and contradictory changes. For example, before the war the French companies had a great deal of reinsurance in Italy, and some in England and Germany. Then when France declared war against Germany, all reinsurance transactions with that country terminated. The treaties with German companies were replaced very largely with companies of Italy and England. Then, of course, when Italy entered the war against France, insurance relationships with that country were terminated and the treaties that had been in existence with Italian companies were replaced largely in the British market.

### Fall of France

Upon the fall of France, reinsurance relationships had to be terminated with England. It is reported that most of the British business has now been placed with German companies but that reinsurance relationships with Italy have not yet been reinstated.

Reinsurance companies doing business throughout Europe have had a hectic time as the map of Europe has changed. The situation is complicated because retrocessions as well as reinsurance are affected. A reinsurer of French business today would not be permitted to retrocede any of that business to a British company. It would not be permitted to retrocede British business to a company in an Axis country or an Axis controlled country.

These adjustments, of course, are tremendously difficult, but they are facilitated to a considerable extent because of a feature of the reinsurance system that is found abroad but is not commonly employed in this country. The direct writing company retains the reserve on business that is reinsured and this generally amounts to 40 percent of the premium. The ceding company pays to the reinsurer interest on this reserve. It is assumed that the reserve will be in an amount that will cover the reinsurer's losses. The reinsurer is free to draw down the excess above the reserve less, of course, commission to the direct writer. Most of the reinsurers have pursued the policy of drawing down their free funds very closely so that the reinsurer's interest in a given country is likely to be the amount of reserve that is held by its treaty companies.

### Effect of Termination

If relationships have to be terminated, that can be done rather expeditiously under those circumstances. The direct company merely retains the reserve which it has in its possession and pays the losses. If the losses should exceed the reserve, then the direct company would be out of luck, for the time being at any rate, and if the reserve should exceed the losses, the reinsurer would probably have to whistle for some time for the difference.

The usual custom in this country, of course, is for the reinsurer to take the entire premium less the commission and carry its own reserve. That means that in the event of termination of a treaty, the reinsurer must pay back to the direct writing company the entire reserve portfolio, and when that happens there is a real jolt. If such a system prevailed in Europe, there would be some very uneven results in the event of termination of treaties owing to war conditions.

The American system is unsuited to international reinsurance relationships. Moreover, it might be said that reinsurance could not be conducted on an international scale if reinsurance companies were compelled to comply with the same restrictions and conditions in other countries as they are in the United States and if other countries should undertake to control the ceding of reinsurance by their domestic companies as do the states of this country.

A certain number of reinsurance companies of other countries are willing to enter the United States and comply with the conditions in this country, because the field is so important and the possibilities so great. However, such companies would not be willing to meet similar requirements in other countries.

American reinsurance companies during the war period have had a lot of opportunities to accept business from foreign countries, particularly from Central and South America, but also from England, South Africa, Norway and elsewhere. Some of these offerings have been submitted by brokers from foreign countries and some from brokers in this country who have connections in foreign lands.

Although some executives in this country are receptive to offerings of foreign business, the market is quite limited. Some of those who are interested in seeing the United States companies extend their field of vision beyond the United States and Canada are inclined to blame the lack of receptivity on the older heads in the business. They say that some of the younger executives feel that an opportunity exists for American companies, but that the older executives are hard to convince.

A good many Central and South American treaties have been offered to American companies in recent months. Apparently some of the South American companies would like to replace their reinsurance that is now placed particularly with Italian and German companies in the United States market. Some of this desire for change may be due to reasons connected with international politics, but for the most part it is attributed to lack of communications.

**Norwegian Treaties**

Other possibilities of writing foreign business have arisen. For instance, it is said that there was an opportunity for American companies to take Norwegian treaties that were formerly in the English market. Also, there have been offerings from British brokers of shares in treaties of British companies. There are two entirely different attitudes encountered among reinsurance executives of American companies as to this foreign business. Some seem to have a completely closed mind on the subject and are not in the least interested. Others are almost crusaders for the idea of developing interest in this country for foreign business. They complain that the American insurance market is too provincial minded; that it should branch out in foreign lands and that now the great opportunity exists. If the opportunity is rejected at this time, they say, it may never occur again.

Those who are interested in developing foreign business say that a reinsurance company handling treaties from other countries must place its reliance in individuals who are familiar with the territory and the conditions. The situation is no different, they contend, than when an insurance company becomes a member of an underwriting syndicate for some specialized type of risk and places its reliance on an individual for the net results. The currency problem, of course, is a great mental barrier to United States companies that are accustomed to dealing in only one currency or at the most two, taking Canada into consideration. However, because the ceding company retains the reserve on reinsured business, the currency problem is less difficult than it would be were the entire premium less commission to be paid to the reinsurer. The assumption is that the reserve that is retained is sufficient to meet the losses on account of the business reinsured and the reinsuring company is free to draw down the excess. It is not necessary to have large balances tied up in various countries. The loss ratios in South American countries are quite low. So long as the reinsuring company does not pay out dividends from its home office, based upon operations in foreign countries where the money has not actually been brought down and merged into home office accounts, then the crusaders for foreign business say that the reinsurer has very little at risk.

A good deal of imagination is required for an executive who has always been accustomed to confining his activities to this country, to venture abroad. Those who believe there is a great opportunity today, are exhorting American companies to make the initial venture.

## Fire Reinsurers Regain Commanding Position

(CONTINUED FROM PAGE 6)

question arises as to the position of the United States subsidiaries of British companies. Apparently that question has not been finally determined although it seems to be the general impression that United States subsidiaries of British companies that are wholly owned by the parent organization stand in the same shoe as the U. S. branch of a British company. However, United States subsidiaries that have outside stockholders are not on the British statutory list. There are a few such companies, one of the most important being Employers Fire.

Then the question arises as to whether United States branches of British companies may have relations with United States companies that are owned by interests in Axis controlled countries. Apparently, these situations are open to negotiation. In order to remove such companies from the statutory list, the British board of trade wants assurance among other things that the officials of such a United States company will have no communication direct or indirect with the foreign owners and that the officials of the United States company are for the British cause.

Some of the reinsurance companies that have lost British business on account of the trading with the enemy provisions have been able to have a voice in the placing of the business that they are losing and in so doing have been able to obtain some reciprocal advantages that have helped to offset the loss.

In addition to this shifting of business which has swelled the income of several of the reinsurers, there has been a natural increase in income from existing treaties, reflecting the premium increases of direct companies this year.

# Casualty Reinsurance Market Well Prepared for New Demands

By GEORGE H. BAIRD
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It is probable that 99 out of every hundred persons not engaged in the insurance business have no knowledge of the existence of reinsurance companies. When they do, perchance, learn that in back of the average insurance company there stands another company, sight unseen, who participates in their fortunes, they express wonder and ask, "Why?" Why should an insurance company advertise itself to the public, encourage its agents to sell more and more policies or bonds, weed out unprofitable agents, risks or classes of insurance and compete with other companies for business, only to turn around and sell a portion of the result to a reinsurance company? To those of us in the insurance business the answer is obvious, but it is sometimes difficult to explain to the uninitiated, particularly in those instances where the original company issuing the policy is larger financially than the reinsurance company.

The date of the origin of reinsurance is unknown, although reference to reinsurance has been found to have been made as early as 1370. Other definite references to the term "reinsurance" have been found to have been made in 1658, 1746 and 1755. Although the business of insurance itself in those early days was only a twinkle in the eyes of Father Time, it also appears that the insurers issued policies only for an amount of liability which they could retain net for their own individual account, thus making reinsurance unnecessary.

### Earliest Reinsurance Treaty

The earliest known "treaty of reinsurance" was arranged in 1821 and, unquestionably, was far in advance of its time, as the bulk of the comparatively small amount of reinsurance which existed for many years later was handled on a facultative or individual offering basis. The few "treaties" which existed in the early days were negotiated on the basis of reciprocity whereby reinsurance was traded between direct writing companies in such a manner that the reinsurance premium volume respectively traded would balance. Furthermore, because several local direct writing companies might be interested by direct policy on the same individual risk and through acceptance of reinsurance under a treaty become overloaded with liability, it was found necessary to consummate treaties with companies domiciled and writing direct insurance only in other countries. This was particularly true in the case of fire and marine coverages.

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### Germany Was Pioneer

The formation of reinsurance offices undoubtedly helped the progress of automatic reinsurance treaties in the replacement of facultative or individual offerings. The earlier reinsurance offices were formed as subsidiaries of direct writing companies for the purpose of reinsuring the parent company. Germany was the leader in the organization of reinsurance offices, not only forming the first (1843), but in addition forming the greatest number of offices with the fewest failures. Germany was closely followed by Switzerland and Austria in the successful pioneering of reinsurance offices, who in turn were trailed by France, Sweden and Denmark. For some reason, England, although a leader in direct insurance, had poor success with reinsurance offices. England's first reinsurance company began business in 1867 and lasted only until 1871, although it commenced business with a capital of £100,000. Additional companies were formed but also fell by the wayside, the oldest English reinsurance company still in existence having been formed in 1907. The United States was far behind the rest of the world in the formation of strictly reinsurance companies, its first effort resulting in failure in about 1890 and the second formation not occurring until 1909. At the present time there are several strong professional casualty and surety reinsurance companies domiciled in the United States, the oldest having been licensed in 1911.

### Excess and Share Methods

Three methods of reinsurance are ordinarily employed under automatic casualty and surety reinsurance contracts and are probably more familiarly known as "excess or catastrophe basis," "share basis" and "surplus share basis." Other decriptive terms are sometimes employed but the above terms are probably most common. The term "excess basis" ordinarily implies that the ceding company will pay for its own net account any loss up to a certain predetermined amount (usually called its "retention") as respects each accident or event. If the loss exceeds that amount the reinsurer reimburses the ceding company for the difference between the retention and the total cost. An insurance company, for example, may feel that it can absorb liability losses of $10,000 per accident without endangering either loss ratio, net underwriting profit or surplus. Arrangements are then made with a reinsurance carrier automatically to protect the company as respects any per accident loss exceeding the limit of $10,000. The term "share reinsurance" is just what its name implies, that is, the reinsurer agrees to reimburse the company for a predetermined portion of each and every loss, regardless of the amount of limits of insurance provided for in the bond or policy. "Surplus share" reinsurance is similar to "share reinsurance" except that the reinsurer is not to participate in the bond or policy unless the limit of insurance exceeds a certain stipulated amount and then the reinsurer is ceded the surplus, either all or part, its liability applying on a share basis from the first penny of loss.

There are many reasons for reinsurance and probably the prime one is the necessity to sail the insurance boat on an even keel by preventing through reinsurance, or at least lessening, the likelihood of widely fluctuating loss ratios. It is entirely possible, of course, that several years of satisfactory underwriting might take place with results at a more or less continuous level, there being no need to call upon a reinsurer. This might temporarily blind one to the necessity of purchasing reinsurance. However, there is always haunting underwriters the eventual probability of the occurrence of a catastrophe or series of costly events which, without the benefit of reinsurance recovery, would not only distort the underwriting experience of the company but might seriously impair the company's surplus to policyholders.

### Underwriting Limits

Need for reinsurance is further occasioned by the fact that the several insurance supervising authorities have

GEORGE H. BAIRD

ruled that a company must limit its net liability on any risk to an amount not exceeding 10 percent of its surplus to policyholders. The application of this rule necessitates the securing of satisfactory reinsurance unless the insurance instrument is executed by several companies working in conjunction on a so-called co-surety or co-indemnity basis. While this 10 percent rule was designed to minimize the possibility of a failure of a company due to any one event, a gap still remains, as the rule applies to each individual insuring instrument or risk. Thus, for example, in the case of a contractor, a surety must limit its net retained liability under the contract bond to 10 percent of its policyholders' surplus. The surety, however, may have in full force and effect at the same time several bonds, each applying to a separate job of the contractor and even though the surety has reinsured its net liability under each individual bond down to 10 percent of its policyholders' surplus, the surety's net aggregate loss under all bonds, because of default of the contractor, might well be several times its so-called treasury or qualifying limit. Prudent underwriters, therefore, further limit their companies' aggregate liability in such cases by appropriate reinsurance.

### Period of Experimentation

The business of insurance has been increasing by leaps and bounds year after year, not only in the number of policies and amount of premium volume written, but also in kinds of hazards insured against and types of insuring instruments issued. When new classes of insurance are contemplated (malpractice, products, accountants' and all-risk liability, to name a few, were pioneered only a few years ago) it is not unusual for the underwriter to reduce his net retention by reinsurance until the period of experimentation has passed. The professional reinsurance companies have, therefore, been of considerable aid in the development of new insurance.

At certain times the reinsurance companies have been of considerable financial assistance to the direct writing insurance companies through acceptance of "portfolio" reinsurance, thus enabling the insurance company to increase surplus by reason of reduction of unearned premium and other reserves. These "portfolio" transactions, fortunately, are comparatively rare and usually occur when the company has "indigestion" because of too heavy premium writings or when the company's investments have depreciated with consequent reduction in policyholders' surplus. "Portfolio" reinsurance is actually more of a banking than a reinsurance proposition and is strictly an accommodation to the company involved.

### Development of Reinsurance

Today a large part of casualty and surety reinsurance is handled under automatic treaties or contracts provided by professional reinsurance companies. The original practice of inter-company exchange of reinsurance as well as the operation of pools, of course, continues, although to a lesser extent. In some cases these practices are necessary and essential as the domestic reinsurance companies' capital structure, while adequate to take care of normal requirements, could not possibly absorb the many millions of dollars of insurance liability required in certain instances. This is particularly true in the case of contract, advance payment and supply bonds involved in the tremendous amount of government defense work presently being carried on.

In the usual course of business, intercompany exchange of reinsurance, facultative reinsurance and the operation of pools have proven to be burdensome and unprofitable. Before the advent of automatic reinsurance contracts a company was unable to bind or insure a large line unless and until it had presented full underwriting data to other companies and had received approval of acceptance of reinsurance. This not only

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President International

delayed issuance of the cover but sometimes proved embarrassing where several companies were competing direct for the same business. Furthermore, it conceivably may have created a temptation to the companies accepting the reinsurance to raid the business of the reinsured company in view of the full information supplied such as expiry date of the policy, rate charged and details of cover. Complete accountings were, of course, required, needlessly entailing time and expense on the part of both the reinsured and the ceding company. Commissions allowed by the accepting companies barely covered the acquisition cost of the reinsured company and, except in rare instances, provided no allowance for general overhead expenses.

#### Keeping Track of Market

Reinsured companies, in order to create a permanent reinsurance market for future offerings as well as to balance off premium volume previously ceded were often forced to accept reinsurance of a somewhat undesirable nature and complained that their reinsurers received the better end of the bargain and they the bitter end. Moreover, the reinsured company necessarily spent a great deal of time studying the financial condition of the many companies to whom reinsurance was ceded in order that they might be reasonably certain that the reinsurance obligations would be lived up to, particularly in view of the fact that the reinsurer's portion of a loss might not be due and payable for many years. Practically all of the above described disadvantages which existed during the past century or two still exist today when automatic reinsurance contracts are not employed.

The earlier reinsurance treaties or contracts, and in fact many of those employed until a comparatively few years ago, were lengthy, ambiguous and provided only a limited cover. The reinsurer insisted upon detailed bordereaux and other voluminous accounting reports. Numerous exclusions were insisted upon by the reinsurer, the use of which with other technicalities often created friction between the parties and indicated lack of faith. The automatic treaties issued today by the professional reinsurance companies incorporate the lessons learned in the past and provide the kind of protection needed by the direct writing companies. The reinsurer's liability to the company attaches simultaneously with the effective date of the company's liability, even though inadvertently the company had not reported to or paid the reinsurer its share of the premium. Detailed accounting reports are not required and, depending upon the class of insurance involved, are frowned upon by most of the professional casualty and surety reinsurance companies.

The net cost of present day automatic reinsurance is so low that it cannot properly be termed a "cost," as the originating company in effect has sold a portion of its business at a higher price than it paid for that portion of its business. All transactions between the company and the professional reinsurer are confidential, the company having no fear that the secrets of its business or underwriting practices will become the property of competitors. Present day contracts are brief and the wording is clear and concise while at the same time protection is granted automatically that would not have been dreamed of, even on a facultative basis, only 15 or 20 years ago. Many mistakes have been made in the past, but valuable experience gained, with the result that today there is, in almost every case, complete trust and cooperation between the company and the professional reinsurer.

#### Insurance Manager

While the bulk of premium volume received by a casualty and surety reinsurance company is derived from protection afforded to direct writing insurance companies, a limited income is also earned under catastrophe contracts issued to qualified self insurers. Many industrial concerns scattered over the country have received approval from the proper state authorities to become, in effect, insurance companies as respects the payment of workmen's compensation claims to their own employes and for the payment of bodily injury claims to members of the public. The incentive to self insure is usually occasioned by the desire to reduce expenses, an employer believing (sometimes erroneously) that it can handle and pay claims direct at a net cost of less than the premium it would pay an insurance company for its services. Furthermore, some industries, because of the type of operations carried on, find it difficult to purchase full coverage insurance and, therefore, become self insurers.

## COST IS SMALL

The successfully operated self insurer employs an insurance manager well versed in the theoretical and practical intricacies of insurance. It is his job to see that all insurable hazards of his employer's business are properly taken care of by means of an intelligent self insurance program dovetailed with appropriate full cover insurance. Premiums as respects self insured operations are periodically set up in a special fund, out of which are paid losses and other expenses such as salaries of attorneys, claims investigators, safety engineers and clerks employed in the self insurance department. To protect this fund and other assets against exhaustion because of the occurrence of an unusually costly accident the self insurer purchases a catastrophe insurance contract either from a direct writing insurance company or a reinsurance company. However, because of the rather limited spread of risk and amount of premium volume available, combined with the oftentimes hazardous class of operations involved, comparatively few catastrophe self insurer contracts are issued by the direct writing insurance companies. Under this contract the self insurer will be reimbursed or indemnified for loss exceeding a certain predetermined amount as respects each accident. The cost of the catastrophe insurance is relatively small and depends, among other factors, upon the size, type and location of the self insured operations, past accident record, safety organization and the amount of deductible involved under the contract. Because of the comparative infrequency of serious and costly accidents the charge for a catastrophe contract in dollars is small as compared to the cost of full cover insurance.

#### Retrocession Situation

Because of the large limits of liability which a professional reinsurer is obliged to accept in order to be of value to the direct writing insurance companies it, too, must purchase reinsurance limiting its net loss as respects any one event to a conservative amount. When reinsurance accepted is in turn reinsured in whole or in part with another carrier, the transaction is termed a "retrocession" and the carrier accepting reinsurance of reinsurance is called a "retrocessionaire."

A large part of the reinsurance transactions carried on by a professional casualty and surety reinsurance company is of the "excess" type and as a result losses are not so frequent as those sustained by direct writing companies under full cover policies, but may be far more severe in amount. This low loss frequency and the usual catastrophic nature of cover afforded the reinsurance company by a retrocessionaire enables the reinsurer to purchase retrocessional cover at a price that it can afford. The retrocessionaire may, in turn, purchase protection from other retrocessionaires until eventually the liability has been distributed in such a way as to minimize the possibility of a shock loss to any one carrier.

The casualty and surety reinsurance companies, unlike the fire reinsurers, do not find it extremely difficult or impos-

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# Reinsurers Eye A. & H. Problems

## War, Conscription, Hospitalization, Legislation

By E. G. TRIMBLE, Jr.
Assistant Secretary Employers Reinsurance

In no line of insurance is there a greater variety of theory, practice and result than in accident and health. A reinsurer of this type of coverage may be likened to a funnel-spout through which much of this miscellany flows. Although not as well educated on many aspects and specific details of the business as his direct-writing compatriot, the accident and health reinsurer does get a broad perspective of all phases.

Not for a moment should it be thought that the greatly diversified coverages indicate lack of coordinated purpose. They are merely a result of a conscientious effort on the part of the companies to provide for individual needs for protection against loss resulting from personal injury and sickness. As the need varies, so must the coverage and consequent cost. Perhaps a reasonably good measuring stick of the effectiveness of this effort is the fact that, in 1939, accident and health, with approximately the same premium volume as compensation insurance, was second only to automobile liability in premium income.

### Topics of the Hour

Current impressions gained from executives and managers throughout the country indicate that foremost in their minds today are war, conscription, public relations, legislation, hospitalization, and safety. Reinsurers may not seem to be directly affected by some of these problems, but it would be extremely short-sighted of them not to recognize the close identity of their welfare with that of their treatyholders and all other companies in the accident and health business.

War has dropped us precipitately into the middle of a defense program of unprecedented character. It is probable that these activities will necessitate the creation of additional occupational classifications and the experience in certain present classifications may change sharply. The greatly increased employment may be expected to cause an increase in industrial accidents, and the concentration of individuals may increase the number and spread of epidemics. These and other trends will require alert and careful attention.

### Prepare for U. S. Entry

With regard to the possibility of the United States actually entering the war, most companies are not "crossing that bridge until they come to it." Many, however, have made complete surveys of their business, in order to be prepared for immediate action. Opinion varies considerably as to the chance of this country being invaded, aerially or otherwise, but there is no question that nearly every company has in force policies, at least on older forms, with inadequate war exclusions. This phase assumes greater significance today than ever before, because of the far greater percentage of civilian casualties in modern warfare.

Of more immediate concern is the problem arising from policyholders being called into temporary military and naval service. Companies have adopted a fairly uniform practice in this regard. Briefly put, coverage is being extended to those in service on land within the continental United States, without applying occupational pro-ration. Many of these extensions apply whether or not the United States may enter the war. In 1917, we were at war before this problem confronted the companies, and a similar extension was, nevertheless, generally made. This action is primarily patriotic and born, too, of a desire to maintain the good will of policyholders, but it must be admitted that reducing sales resistance among all those of draft age has been a factor. The hazard of military and naval service undoubtedly represents an increase on the average. However, it was anticipated that many individuals would drop their policies upon entering the service because of reduced earnings, and results to date have proven this to be true.

### Public Relations

Perhaps the adopted policy of the companies on policyholders in service is, in one sense, a subdivision of the next and all-important subject of public relations. Much has been said on this proposition of creating good will. How much has been done is a moot question. Excellent advice has been given by committees and individuals, but all agree that the only real solution lies in the concerted effort of the personnel of each company concerned. And we are all definitely concerned. The accident and health fraternity has good reason to be proud of its achievements in this direction, and the continued increase in volume of business indicates greater and greater acceptance of its product by the public. Nevertheless, it behooves us to strive for even better relations with policyholders and prospects, especially in view of the present trend of legislative and other governmental bodies, both state and federal. To achieve this greater public good will, every individual in the business must look to himself, determine whether or not he is falling short, and remedy any shortcomings by positive action.

With 43 of the nation's state legislatures convening in 1941, the matter of legislation, both favorable and unfavorable to the interests of the accident and health business, again becomes vital. Intelligent cooperation with the legislative committees and insurance departments and constant alertness to all developments may make a vast difference in the position in which we find ourselves at the end of this first year of the new decade.

### Federal Control of Insurance

Federal legislation and committee investigations are, of course, also much in the minds of accident and health men. Information currently filtering through from Washington indicates that pressure from this source may be lessening. It is generally agreed by all that federal control of insurance and the entrance of the government into the insurance business is highly undesirable. If this be so, let us, then, stop openly criticising our own methods of operation. Our business is conducted on as high a plane as any in the land. It is efficient, ethical and effective. It need bow to no other line of economic endeavor. Of course, it isn't perfect, but isn't the answer, to quietly and industriously set about "mending our fences" wherever they show signs of wear?

The next topic, hospitalization, has been the subject of more hours of discussion than any other during the past few years. This type of coverage is now growing out of its infancy, though not without having left its mark, which was in some instances quite serious. It is apparent today that it is not a fad or "flash in the pan." Nevertheless, coverages, rates and underwriting rules are still changing almost daily. So are the attitudes of the companies to methods of sale and effect on agents. It is the opinion of many that hospitalization and other expense coverage will in time be afforded to the great majority of the insured public through either group coverage or merely as a part of regular accident and health policies designed for individuals.

### Motor Vehicle Mishaps

Safety may not seem to be of equal importance with the other topics mentioned, but the constructive work of the various safety organizations has been a major factor in keeping down accident loss ratios. The most significant single cause of accidents today among insured individuals is the automobile. Remarkable progress in reduction of auto injuries and fatalities has been made in the last few years. It has been shown that motor vehicle mishaps can be greatly reduced by efficient enforcement of intelligent traffic regulations. Local safety councils deserve much of the credit in towns and cities which have made the greatest reductions. It would seem, then, that these organizations should have the whole-hearted support of accident men everywhere. Relatively small contributions of time or money will pay big dividends.

Of the several problems discussed above, not one can be satisfactorily dealt with by the companies acting individually. More than ever before is the need for cooperation apparent. On many phases, the interests of all companies are closely allied, if not identical. It is reassuring to note from recent indications from all parts of the country that this is being recognized to a greater and greater degree. Accident and health men, their companies, and the organizations which they support are working more closely together and are intelligently aligning their forces to achieve common purposes. It is certainly to be hoped that this cooperative attitude will grow even stronger and that it will be of a permanent nature, as it will be a great boon to a successful future for the accident and health business.

# See Acute Problem Ahead In Aviation Reinsurance

Reinsurance has always played a large role in aviation underwriting because of the small spread of risk and the remote chance of a loss being anything less than total. For some years aviation insurance has been written solely by the three intercompany aviation underwriting groups. Consequently the decision of the Employers' Liability group to take up the writing of aviation insurance independent of any group came as a major development not only in the direct writing field but in the reinsurance field as news of 1940, since the reinsurance requirements were taken care of by professional reinsurers and not through interchange of business with other direct writing companies. A few other companies have taken an occasional aviation risk including a large mutual casualty company.

Professional reinsurance companies in this country have been somewhat dubious about taking aviation business in spite of the excellent loss ratios shown by companies operating through the three aviation markets, Aero, Associated, and United States Aviation Underwriters. Reinsurers are particularly opposed to accepting business on an excess of loss basis which unfortunately is what a company going into aviation insurance most needs. Even after the business is spread around on a quota-share basis there is still need for excess insurance.

### Situation Likely to Continue

This lack of a domestic market for excess coverage is likely to continue unless methods of underwriting liability insurance are changed. Unless this is done it will be difficult for companies to go into the aviation field on an independent basis. As liability coverage is now written there is a tremendous accumulation of liability in any one accident.

One suggestion is that the insurance be written on a basis similar to automobile, lumping what aviation insurers now write as passenger liability and public liability. For example, the total public liability coverage might be for \$100,000/300,000 limits. This would greatly ease the reinsurance requirements.

As aviation liability is written today it is not uncommon for the owner of a six-passenger plane used privately or in business to carry liability limits of \$100,000 per passenger seat, \$100,000 of property damage and public liability limits of \$100,000/300,000. Thus there is a maximum liability of \$1,000,000.

This method of writing the liability coverage on airplanes is an outgrowth of the system used in insuring transport planes used on commercial airlines. A change to the basis used in automobile liability underwriting would eliminate the need of spreading some \$700,000 of excess coverage at a premium necessarily so trifling that it would be difficult if not impossible to interest a reinsurer.

It might be argued that a well-to-do individual or a corporation might think an over all limit of \$100,000/300,000 would be insufficient. Yet the same individual or company would probably consider \$100,000/300,000 ample liability coverage on an automobile even though an automobile can kill and injure passengers or others just as effectively as an airplane.

London Lloyds, which is the big excess market for the three American aviation pools, might be thought to be an ample market for companies going into aviation insurance independently. However, either because of a feeling that they have extended their excess aviation capacity as far as they care to or possibly because they do not wish to risk beating down premium levels through fostering competition with the established markets Lloyds underwriters have shown themselves reluctant to grant excess limits.

### Effect of Defense Program

To what extent the prospects of writing aviation insurance will attract additional fire and casualty companies, either as members of underwriting groups or independently, is problematical, depending pretty much on the increase in production of privately owned aircraft. For the present at least, because of defense requirements, the production of civilian aircraft will have to take a back seat although a good many of such planes will have to be used for the Civil Aeronautics Authority's civilian pilot training program.

The attitude of those already connected with the three major markets toward companies coming into the aviation field on an independent basis varies widely. Some feel that this development is an inevitable accompaniment of the expansion of aviation, that it might as well be taken in good part and that

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# European Complexities Are Enormous

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ness, entering on maps or cards every individual line ceded under all contracts, make their own net retention and retrocede the rest on a surplus basis distributed percentagewise amongst, generally, a great number of companies. The great majority of the companies, however, retrocede parts of their reinsurance pool on a pure quota basis without closely watching and underwriting each individual risk on which they may receive lines from various sources; experience over a long period of years have shown most of them that their business is so well balanced—deriving from a great many companies, any one contract hardly representing more than half of 1 percent of their portfolio—that even a catastrophe or conflagration, in which they may be interested through reinsurance contracts from 10, 20, 30 or even a greater number of companies, for decades never has exceeded 1 or 2 percent of their total premium income under their reinsurance pool.

It may certainly be stated that such retrocession more or less universally is given as reciprocity for other business. Quite often shares will go to direct writing companies as reciprocity for participation in their reinsurance. Thus, even medium sized insurance companies may be actively, although indirectly, interested in a world wide business.

### Greater Collaboration

Between all European companies doing an active reinsurance business in Europe there seems to be a much greater collaboration and closer contact than in this country. Extended interchange of business, reciprocal arrangements in reinsurance and retrocession take place on a large scale and one more frequently finds concerted action and cooperation in working out the basis and conditions of reinsurance schemes in which they are collectively interested; this takes place in spite of the fact that the reinsurance market in Europe is just as highly competitive as in America.

The following sketched example in its simplified form gives quite an interesting and intriguing impression of the complexity of the European reinsurance market: Take two companies, A and B, of different nationality, operating both in the direct as well as the reinsurance field. For simplicity's sake let's suppose that their direct business is confined to their respective home countries, while their ingoing reinsurance business derives from abroad; we may consequently call their direct business the "home" business, and the reinsurance business they receive as the "foreign" business. Now, let's suppose they have reciprocal treaty arrangements both for their "home" and "foreign" (retrocession) business.

### Example Carried Forward

Then this happens: Company A will, under the "foreign" treaty from B, actually receive a certain (reduced) share not only of its (A's) own "home" business, but also a share of its "foreign" business; the "foreign" treaty from B will again go into A's pool of "foreign" business, which thus will contain a share of A's own "home" business, and as B participates in this (A's foreign) pool, it will get back, as a "second retrocession" a (further reduced) share of A's "home" business which formed a part of B's "foreign" treaty; and so on. This is, in fact, something of a vicious circle; and it sounds pretty crazy. It can be done, only when both companies carry on a really substantial and well distributed reinsurance business.

Suppose, in our example, that B has a share of 2 percent in the reinsurance of A's "home" business and that, for simplicity's sake, B gets 200 reinsurance contracts of the same size. Then B's share of A's "home" treaty constitutes 1/200 of B's entire "foreign" reinsurance. If now A participates in B's foreign pool, with a share of 1 percent, the business he receives will contain 1/50 of 1 percent of its own "home" reinsurance, but this only represents 1/200 of the total volume it receives under B's "foreign" pool-treaty. Even if A has had an extraordinarily bad experience one year, in which its reinsurers have suffered badly, this in itself is not susceptible of raising the loss ratio under B's "foreign" pool as much as ½ percent, even if the loss under the "home" contract from A is catastrophic.

### Very Small Shares

An American reader will probably be surprised at the very low figures I have chosen in the above example to indicate the size of shares in which a treaty is split up. I have done so intentionally, as the European reinsurance field in this respect shows a marked contrast to American practice. Shares from ½ of 1 percent to 2 percent in a company's reinsurance or retrocession arrangements are quite common and as a result it is not unusual to see 30 to 40 companies participating in the same treaty.

In fact, if one should draw on a map of Europe lines indicating the distribution of the reinsurance of all European insurance companies, it would look like the finest cobweb and still innumerable lines would have to be drawn to and from most countries in the outside world. I can hardly imagine any other branch of human enterprise being anywhere near as international as European insurance and reinsurance.

Taking this complex structure of the European reinsurance market into consideration, it is obvious that the effects of the war have been numerous and far reaching, particularly because of the economic warfare and trade measures which have not been restricted to the countries participating in the war, but which even in the early stages of the war affected every country in Europe.

Already before the actual outbreak of the war both French and English companies to some extent had canceled or failed to renew reinsurance contracts with German companies, simultaneously giving reciprocal business from Germany. German companies, however, seldom seemed to take any initiative in bringing to an end business relations with France and England right up to the outbreak of hostilities.

### Shadow Treaties

During the beginning of 1939 and up to the outbreak of the war a new and strange kind of reinsurance arrangements came up, the so-called "shadow-treaties." These were in many cases entered into between companies in countries expected to become belligerent and some company located in a presumably friendly country, to take over automatically treaties which would cease as a result of the war.

Naturally, the first and immediate effect of the war was a complete disruption of all reinsurance arrangements between England and France on one side and Germany on the other. Shadow treaties, where companies had been foresighted enough to make them immediately took effect. I believe I am right in stating, however, that the majority of the reinsurance contracts which were broken off at the outbreak of the war were not automatically provided for in this way.

### National Economic Measures

The impression soon developed that most of this business was placed with domestic companies in the respective countries and generally on a reciprocal basis. Prior to the war it was generally surmised that there would be a rather pronounced reinsurance need but this turned out—anyhow for a long time—not to be the case. The reasons, however did not all lie with the reinsurance market itself, but were to some extent dictated by political and national economic measures. This was particularly apparent in Germany. Here, especially

in the fire business, had become very unsatisfactory in the last years with little chance of profit either in direct business or reinsurance. A state tax of 4 percent had been levied on fire insurance premiums, disguised under the name of "fire extinguishing costs," and any rise in premiums is strictly prohibited by the government, as a natural part of its endeavor to keep the general price-level down.

Even so, German companies, partly to keep up their premium income, partly to protect the German currency, preferred to place their reinsurance with other domestic companies on a reciprocal basis which almost certainly would bring a deficit, when sound, neutral companies declined to give any reciprocity. A similar tendency to keep the business within the national territory through some kind of interchange or pooling system took place in France and, particularly, England. The idea of national self-sufficiency, forcibly brought about by the circumstances, tended to come to the fore even in this most international of all businesses. Everybody within the insurance field regretted it, knew and feared the risks involved. Still reasons, not from within the insurance field, required arrangements protecting the national currency.

### Neutral Countries

The beginning of the war left a substantial block of European countries neutral. The insurance companies in these countries, although in many ways affected by the war, were left in a position to carry on—and in some cases they even extended—their international business; nothing prevented them from doing business with the belligerents on both sides. Both Allied and German companies and authorities fully realized the necessity of the insurance and reinsurance business being operated on an international basis. There was a great difference, however, between the Allied and German point of view. The latter did not prohibit German reinsurance from being ceded, through a neutral company, to companies in England or France; and German companies seemed to have no objection to receiving, as retrocession from a neutral source, shares of English or French insurance business.

The Allies' economic warfare, however, was strict, thorough and carried very far. The Allies were very anxious that not a pennyworth of their business directly or indirectly should go to Germany, nor would they themselves have the slightest interest in German business. Consequently, all neutral companies receiving reinsurance business from English or French companies had to subscribe to an affidavit that no part of such business would be ceded to a German company or a company owned by German interests, nor would it be ceded to any other neutral company unless the latter gave a similar affidavit. This caused considerable change and disturbance in the above mentioned retrocession arrangements under which most reinsurance companies operate. Further, the Allied authorities furnished special insurance blacklists showing the insurance companies in neutral countries which were regarded as German on account of stock interests. In this respect ownership of a majority of the stock was not necessary to blacklist a company. It would suffice that German interests held what might be termed a substantial part of the stock or otherwise exercised influence.

### Lists of German Risks

The Allies, in their effort to prevent any benefit accruing to Germany or individuals or organizations identified with German interests from Allied enterprise, even went so far as to furnish neutral insurance companies with complete lists of individual risks within the boundaries of their own countries, owned, controlled or influenced by Germans, on which Allied companies would refuse to take any reinsurance. Neither could insurance companies in the Allied countries take any retrocession share in reinsurance contracts from German companies.

With the above picture as a background it will easily be realized that this economic warfare gave rise to considerable disturbance and change within the European reinsurance market.

The reinsurance companies had just passed this troublesome period of transition and readjustment, when suddenly the scope of the war broadened through the invasion of Norway and Denmark, later Holland, Belgium and France, through Italy's entry into the war, and later the Balkan's diplomatic line-up with the Axis and, partly, their peaceful invasion by Germany.

From that time on the British economic warfare, with logical thoroughness, was extended to these respective countries.

From then on real troubles and difficult times began. Practically all connections between Great Britain and the Continent were broken off. This represented to many companies a serious set-back in premium income and a severe loss in reinsurance facilities. All companies have had to rearrange their reinsurance and retrocession arrangements.

## RECIPROCITY

What the final outcome has become, is difficult for the writer to say, as he left Europe in the beginning of July this year. At that time, however, it appeared that the same tendencies which developed at the outbreak of the war would prevail, viz: of reinsurance being placed with domestic companies upon an extended reciprocal basis; the situation even gave rise in some countries to the formation of a reinsurance exchange or pool comprising the total or majority of companies within the respective countries. The reasons were numerous: protection of their respective currencies, exchange difficulties, uncertainty, serious delays and difficulties in international communications, a natural preference given by the majority to one's own, national currency paired with less confidence in the financial security offered by foreign companies, and certainly also the spirit of national unity and solidarity which these trying times have greatly strengthened in most countries. Still, under the temporary circumstances in Europe, the Continent in essence again forms an open reinsurance market, with the exception, of course, that companies in the few countries recognized by Great Britain as neutral cannot give away to any others English business which they may still receive, nor cede to British companies enemy or non-neutral business.

It must be expected that the turmoil, uncertainties, disturbances and, in several countries, disruption of production and finances have left a great many reinsurance problems still unsolved and insolvable until the war is over. Most Continental companies must face seemingly insurmountable difficulties in making their annual statements and balance sheets at the end of this year. It will be a difficult task to determine the value of their investments; if property destroyed is insured under some government or national mutual scheme what is it worth? What rates of exchange shall be applied to their vast international business?

In many instances, it may be expected, companies cannot even determine with certainty the number of reinsurance contracts from abroad which are actually in force; at any rate the results under them may be absolutely unknown. Cables and letters, which previously arrived in the course of hours or days, may today be under way days, weeks—if not months—if they arrive at all!

However, all information received here serves to indicate that the insurance and reinsurance business in Europe as an integral part of its national and international life is carried on, relatively undisturbed and normal, anyhow to a much greater extent than people in this country would be inclined to believe.

### Retain Premium Reserve

In one particular respect the war created fewer difficulties and losses than might be expected from an American point of view. Unlike practice in this country, in Europe insurance companies almost universally retain the premium reserves on business which they cede. Recently a tendency has even developed amongst ceding companies to require their reinsurers to deposit their share of the reserve for outstanding losses coming within the scope of their contracts. The retention or deposit of premium reserves is an old custom. In normal times it facilitates the financial settling in case of cancellation of a contract with return of portfolio, as no return premium remittance is required. In war-time, when contracts cease as a result of political disturbances, it means a valuable safeguard for the ceding companies. During the last war in many instances ceding companies increased their premium reserve deposits, which usually run about 35 percent, by retaining as much as 50 to 60 percent of the premiums reinsured. This was done as a precautionary measure in cases where the ceding companies felt reason to fear financial weakness of its reinsurers in countries where the currency might lose its internal or international value. There are reasons to believe that similar events have developed during this war. A contributing reason for this would today be the lack of communication between countries and the absence of any trade relations, which is the basic element in the determination of the rate of exchange between currencies.

When the war is finally over, I firmly believe that Europe is going to retain its position as the reinsurance market of the world. Europe has a good set-up—a number of old established companies which have long since passed the weaknesses of childhood and which have gained experience in a world-wide business going through all kinds of critical and adverse times. They have a large staff of men accustomed to handle this very diversified business, experienced in traveling and often acquainted with a number of languages. But this is all of relatively minor importance compared to one point where Europe has a great advantage over the United States. This country may have the best insurance laws in the world from the domestic public's point of view but they certainly represent an effective barrier to all initiative tending toward an international business on any large scale. There are insurance laws and supervision in most European countries, too. In some cases they are quite strict. But they are flexible. They are based on the needs and nature of the trade and in Europe it is universally recognized that this business in essence must be international. And the reinsurance business in Europe when the war is over certainly again will become universally spread amongst insurance companies of all countries, not as a result of traditions, but dictated by the very basic principle of insurance itself: the necessity of distribution and spread of risks and liabilities.

## Lloyds Risks Are Held by Rates and Terms

The European war has caused many of the Lloyds policyholders to inquire into the security behind their contracts. A certain number of policyholders have had misgivings even after the existence of the $40,000,000 trust fund in this

country was pointed out to them. Some of the Lloyds policyholders decided to replace those contracts but when they went into the market they found more often than not that the Lloyds rates were far lower than could be obtained elsewhere and sometimes the coverage could not be duplicated in the domestic market. Hence, less business than might be supposed, has been lost by Lloyds to American companies. Some of the casualty reinsurance companies write excess covers for self-insurers and they have obtained a certain amount of business that was formerly placed in Lloyds.

Seemingly Lloyds has lost very little regular reinsurance business from insurance companies.

## See Acute Problem Ahead in Aviation Reinsurance

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as much as possible, giving them the benefit of the experience that has been had with a view to helping them avoid mistakes which would tend to demoralize the market. This applies particularly to possible attempts to compete by unjustifiably low premium rates or unreasonably liberal policies.

### Some Resent Newcomers

On the other hand there are some who feel that the companies which have been the pioneers have developed the experience and have taken the risks while others were waiting to see what happened should maintain the advantage of their competitive positions. There is no denying that the "gravy" is in the moderate-value business and that invasion of this field by the independent writers, to the extent that it takes away business from the established groups, makes it more difficult for the latter to maintain the necessary capacity to cover the high-value ships which they are called upon to insure.

This year the aviation underwriters have finally come face to face with the condition that has been looming up ahead of them for some time—lack of reinsurance capacity to absorb coverage on values that are about to require insurance. One manufacturer has plans which will call for insurance of about $3,000,000 on a single ship. This is not projected for some distant date in the future but next year. That figure exceeds the capacity of the present world market but underwriters are convinced that when the risk is to be written a way will be found. Not so many years ago they were equally up against it in trying to dig up sufficient capacity in the world market to insure a ship for $70,000. The $3,000,000 figure is of course for the prototype, as the first ship of a new design is known. Production models would be valued much lower. High value ships already being insured include an $800,000 flying boat and a $1,250,000 bomber.

### Value on Specific Parts

One method used to hold down insurance values is to base the coverage on each component part. Thus, if an undercarriage is smashed, for example, it is covered for a specific amount and it is not necessary to replace the entire plane. Engineering and research costs are not covered by insurance.

A possibility for adding to reinsurance capacity is a suggestion for a pool of the existing groups. Under such an arrangement the originating group would retain for its own account a certain amount, for example $100,000, ceding the excess over that amount in equal shares to the other two markets. On risks in excess of $300,000 all three markets would share in whatever additional coverage could be obtained through outside reinsurance, largely through London Lloyds.

### Manufacturing Problem Acute

The reinsurance problem is particularly acute in connection with manufacturing of aircraft. Not only are values per ship high but the spread of business is so small that the insurance on a single plane may be far in excess of an entire year's premium volume for all three markets. Adding to the reinsurance problem is the fact that a loss is ordinarily total. There is no allowing for the "amount subject." The amount subject is virtually certain to be 100 percent. Ordinarily a company is unwilling to take on a risk or share of a risk where it stands to sustain a loss of more than 5 percent of its premium volume on the line. In aviation insurance the companies in the aggregate have taken on individual risks in excess of their premium volume. Hence the need for the reinsurance facilities of Lloyds underwriters, who are willing and able to take aviation along with other variegated risks and come out with a profit.

Commercial air lines present less of a problem than manufacturers. Though values are high the premium volume is comparatively large. Except for Pan American Airways the air lines usually self-insure the crash hazard, except in some cases for excess above a high aggregate limit. They usually insure the ground hazards, and all carry high passenger and public liability limits. Workmen's compensation is required by law, as in the case of other employers.

## Reinsurance Plays Part in Experimental Stages

(CONTINUED FROM PAGE 5)

thank you letter. The consolidation of school districts has resulted in the building of new schools with proper heating systems, semi-fireproof construction and better private protection. Likewise, unprotected dwellings were considered accommodation business a few years back, but with the assistance of the HOLC and the exodus from the city, the class has become profitable, and reinsurance offerings less.

### Hybrid Corn Plants

At the moment hybrid corn plants and soy bean mills are a drug on the insurance counter, and a headache to the reinsurer, but as more experience is gained in the controlling of the hazards of these risks the more profitable they will become, which will mean increased net retentions on the part of the ceding companies and less reinsurance. During the period of experimentation on new classes the record may be very favorable and again it may be poor.

Due to the increased amount of extended coverage insurance being sold by agents the examiner is obliged to watch his tornado liability as well as his fire line and owing to the possible overlapping of liability, reinsurance must be placed on both as one coverage is rarely accepted without the other.

### Business Interruption Problem

A principal topic of conversation among underwriters at this time is the necessity for close supervision of business interruption insurance. With tool and die industry operating at capacity, and with unfilled orders on hand dated many months ahead, a replacement of machinery in a manufacturing plant heretofore requiring a shut down of 15 to 30 days, may now cause a six to 10 months delay. This will result in increasing the loss expectancy on this business from a previous average of 50 percent to 80 percent or even 100 percent, which must result in a consequent reduction in net retentions. This situation presents an unexpected, but nevertheless appreciated, windfall for the reinsurer.

Considerable speculation is also voiced regarding sabotage, but after due consideration to this phase it is considered more or less negligible, as it can be classed as moral hazard. If there are any doubts in this respect the line can be declined when it is offered. A careful review of the socalled sabotage losses occurring during the last war failed to disclose any out and out claims resulting therefrom. The principal hazard is, of course, capacity production which involves inexperienced help and lax housekeeping.

Business indices are continually rising and while the insurance business in general is just beginning to feel the upsurge of our country's tremendous armament and defense program, it will also be prepared for it. The reinsurance companies, too, will accept and meet the challenge of a changing world, but win, lose or draw, will remain the active but silent partner.

## Casualty Reinsurers Ready For New Demands

(CONTINUED FROM PAGE 11)

sible to guard against an overload of liability on any one risk and this is primarily due to the nature of the business. As a general rule it is unusual for several direct writing casualty and surety companies to issue concurrent or overlapping policies or bonds for an identical assured or principal unless the insuring instruments are issued on a co-surety or co-indemnity basis. Even in those cases the reinsurance contracts of the several companies may not necessarily be carried with the same reinsurance company. Usually the reinsurance carriers, in order to protect themselves against this contingency, clearly provide in their contracts that the reinsurance:

1. Applies automatically only in those cases where the direct writing treaty or contractholder is the originator of the co-surety or co-indemnity risk, and
2. Does not apply in connection with reinsurance accepted by the treaty or contractholder.

Retrocessional covers purchased by the reinsurance companies in the majority of cases take care of the possible overaccumulations on any one risk as well as "shock" or other unusually expensive accidents.

Some of the insurance companies having foreign financial birth, but domciled in the United States or Canada have, in the past, purchased reinsurance from companies located in the mother country. In view of the present international situation and particularly in the case of war conquered countries, these locally domiciled insurers have now found it necessary to consummate reinsurance contracts with reinsurance companies domiciled in the western hemisphere. Needless to say, the domestic reinsurance market is not only eager to be of service but is in a financial position to easily absorb the additional coverage required.

### Financial Stability

The more widely known professional casualty and surety reinsurance companies domiciled in the United States are stronger today financially than at any time in the past. If we go back 13 years to December 31, 1927, we find that four of these companies had aggregate admitted assets of $36,000,000 with policyholder surplus (including special reserves) of $10,000,000, making the average per company $9,000,000 assets and $2,500,000 surplus. As of Dec. 31, 1939, these four companies had aggregate assets of about $72,000,000 with policyholder surplus of $27,000,000 or an average per company of $18,000,000 assets and $6,750,000 surplus. During the 13 year period total assets had about doubled and surplus almost tripled. In 1927 the four companies wrote aggregate net reinsurance premiums of $17,000,000 and in 1939 total net premiums of $24,000,000. The aggregate net premium written through the 13 year period was $262,000,000. This record is impressive and even more so when one considers that it was made during one of the worst depressions in the economic history of the United States, coupled with the facts that net rates charged by the reinsurers during this period have steadily declined and reinsurance protection materially broadened. Needless to say this record could not have been possible without the wholehearted cooperation of the insurance fraternity. The broad-minded insurance underwriters have realized that a strong and permanent professional reinsurance market is a requisite for the future success of the insurance business.